

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Novi	County Oakland
Audit Date June 30, 2005	Opinion Date September 30, 2005	Date Accountant Report Submitted To State: October 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy	City Southfield	State MI	ZIP 48037
Accountant Signature 			

City of Novi, Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

PREPARED BY THE FINANCE DEPARTMENT

City of Novi, Michigan

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City of Novi, Michigan

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September 30, 2005

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

CITY COUNCIL

Mayor
Lou Csordas

Mayor Pro Tem
David B. Landry

Kim Capello

Bob Gatt

Laura J. Lorenzo

Toni Nagy

Lynne Paul

City Manager
Richard Helwig

City Clerk
Maryanne Cornelius

We are pleased to submit the Comprehensive Annual Financial Report of the City of Novi for the fiscal year ended June 30, 2005. This report is prepared for the purpose of disclosing the City's financial condition to its residents, elected officials and other interested parties. The financial statements contain all disclosures necessary to enable the reader to gain an understanding of the City's financial activities. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the financial information is accurate in all material respects and is presented in a manner designed to present fairly the financial position of the City.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section includes this letter of transmittal, the City's organizational chart, a list of principal officials and a fund organizational chart, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2004 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report on the basic financial statements, management's discussion and analysis, basic financial statements, and combining and individual fund statements and schedules for the City's nonmajor and fiduciary funds.

Statistical Section - The statistical section includes selected financial and demographic data depicting the City's historical trends and other significant information.

The City of Novi has implemented the new governmental financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34. In accordance with the new standards, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

All local units of government within the State of Michigan must comply with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, which requires an annual audit of the financial records and transactions of the City by independent certified public accountants. The primary purpose of the auditing requirements of this act is to maintain the confidence of all interested parties in the integrity of the record keeping and financial reporting of local units of government.

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www.ci.novi.mi.us



"Enhancing Novi's quality of life"

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

Profile of the Government

The City of Novi, incorporated in 1969, is strategically located in the southwestern portion of vibrant Oakland County. Located just 30 miles northwest of downtown Detroit, the City serves over 47,000 residents and encompasses an area of approximately 32 square miles. Novi is considered a choice community to live and work. A dynamic, growing community, Novi offers an abundance of rolling, wooded acreage, which provides a unique natural backdrop for residential, commercial and industrial land development. Novi is well connected to highway, rail and air transportation routes offering outstanding accessibility.

The City of Novi operates under the Council-Manager form of government. Policy-making and legislative authority are vested in City Council which is presided over by the Mayor, who is elected for a two-year term. The six other Council members are elected for four-year overlapping terms. The City Manager is appointed by City Council. This official heads the administrative branch of city government and directs all city operations, projects and programs.

The City provides a full range of municipal services including police and fire protection; public works, parks, recreational and forestry activities; building inspection; code enforcement and planning and development. In addition to general government activities, the activities of the Economic Development Corporation are reported as a separate component unit of the City. Component units are legally separate entities for which the primary government is financially accountable.

The City of Novi prepares budgets in accordance with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended. Under the direction of the City Manager, the Finance Director prepares an initial projection of revenue for the next fiscal year. Spending priorities are then established based upon the City's financial policies and mandated requirements. Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (that is the level at which expenditures cannot exceed the appropriated amount) is established by function and category. It takes a five-vote majority to amend the budget.

Factors Affecting Financial Condition

Local Economy - Despite the challenging state economy and a global economic downturn, Novi's local economy remains strong as a result of sustained residential and commercial development experienced over the past ten years. Tax base continues to grow annually in Novi at a rate of approximately 8%. The diverse tax mix of residential, manufacturing, office, service and technology and retail-recreational centers reduces Novi's impact of adverse economic cycles and provides a stable environment for new investment. The slowdown in the economy did have an impact on the State of Michigan's Revenue Sharing program which distributes sales tax collected to local units of government.

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

Long-term Financial Planning - The dependency on sales tax collections in Michigan as the sole source for the state revenue sharing pool injects a degree of instability within this revenue source during periods of economic downturn. On average state revenue sharing for cities ranges from a low of 5.7 percent of general fund revenues to a high of 45.2 percent with an average of 21.9 percent. For the fiscal year ended June 30, 2005, Novi's percentage was 16.5 percent of total general fund revenue or \$3,756,453. Novi's revenue sharing payments however, only decreased by \$56,090, or 1.5% from the prior fiscal year. There are two ways that local units share in a portion of sales tax revenue. A constitutional portion is distributed to cities, villages and townships based on a community's population. A second portion of sales tax, the statutory portion is earmarked in state law to provide revenue sharing payments that are subject to annual appropriation. It is this portion that is determined by the Governor and State legislature and can be changed at their discretion. Over the past three years, statutory payments have been reduced significantly. Novi's reliance on this statutory portion of revenue sharing is only approximately 15% of its total annual distribution. The majority of Novi's state revenue payments are constitutional and cannot be eliminated without a vote of the people. The City can expect funding from revenue sharing to remain at current levels for fiscal year 2005-06.

Cash Management Policies and Practices - The City complies with Public Act 20 of 1943 and Public Act 367 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds is invested in certificates of deposit, governmental obligations, bankers' acceptances, bank pooled accounts and commercial paper. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the State of Michigan, municipalities are not required to insure all bank deposits; however, the City evaluates each financial institution it deposits City funds with and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The City has an investment policy in accordance with the above statements.

Risk Management - Effective July 1, 2003 the City terminated its participation in the Michigan Municipal League general liability and property insurance program and is now insured through the Municipal Insurance Alliance. The City of Novi still continues to participate in the Michigan Municipal League Workers' Compensation Fund which is a group self-insured program which provides workers' disability compensation benefits to injured employees of Fund Members. The Fund is comprised of public employers of the State of Michigan which are authorized and approved under Section 611(2) of the Workers' Disability Compensation Act, PA 317 of 1969, as amended, to enter into agreements to pool their liabilities under the Act for the purpose of qualifying as self-insurers. Additional information on the City of Novi's risk management activity can be found in Note 9 of the notes to the financial statements.

Pension and Other Postemployment Benefits - The City participates in the Michigan Municipal Employee's Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The City's annual required contribution is calculated as a percentage of payroll each year by an independent actuary engaged by MERS. As a matter of policy, the City of Novi fully funds each year's annual required contribution to the pension plan.

The City of Novi also provides retiree health care benefits to qualifying full-time employees upon retirement, in accordance with labor contracts. Currently, 42 retirees are eligible. Expenditures for retiree health care benefits are recognized as the insurance premiums become due for individuals retired before June 30, 1994. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Expendable Trust Fund. Employer contributions are made annually to this fund and charged as expenditures to individual departmental budgets based on a percentage of wages.

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

Awards - The Government Finance Officers Association (GFOA) awarded a Certificate of Excellence in Financial Reporting to the City of Novi for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the seventh year that the City of Novi has received this prestigious award.

Acknowledgements - The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of many individuals. We wish to express our sincere appreciation to each of them. Special thanks to the accounting firm of Plante & Moran, LLP who made substantial contributions by way of interpretation of recent guidelines and document review. Appreciation is also expressed to the Mayor and City Council members and Richard Helwig, City Manager, for their leadership and support in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Marina Neumaier
Assistant Finance Director



Kathy A. Smith-Roy
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Novi,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

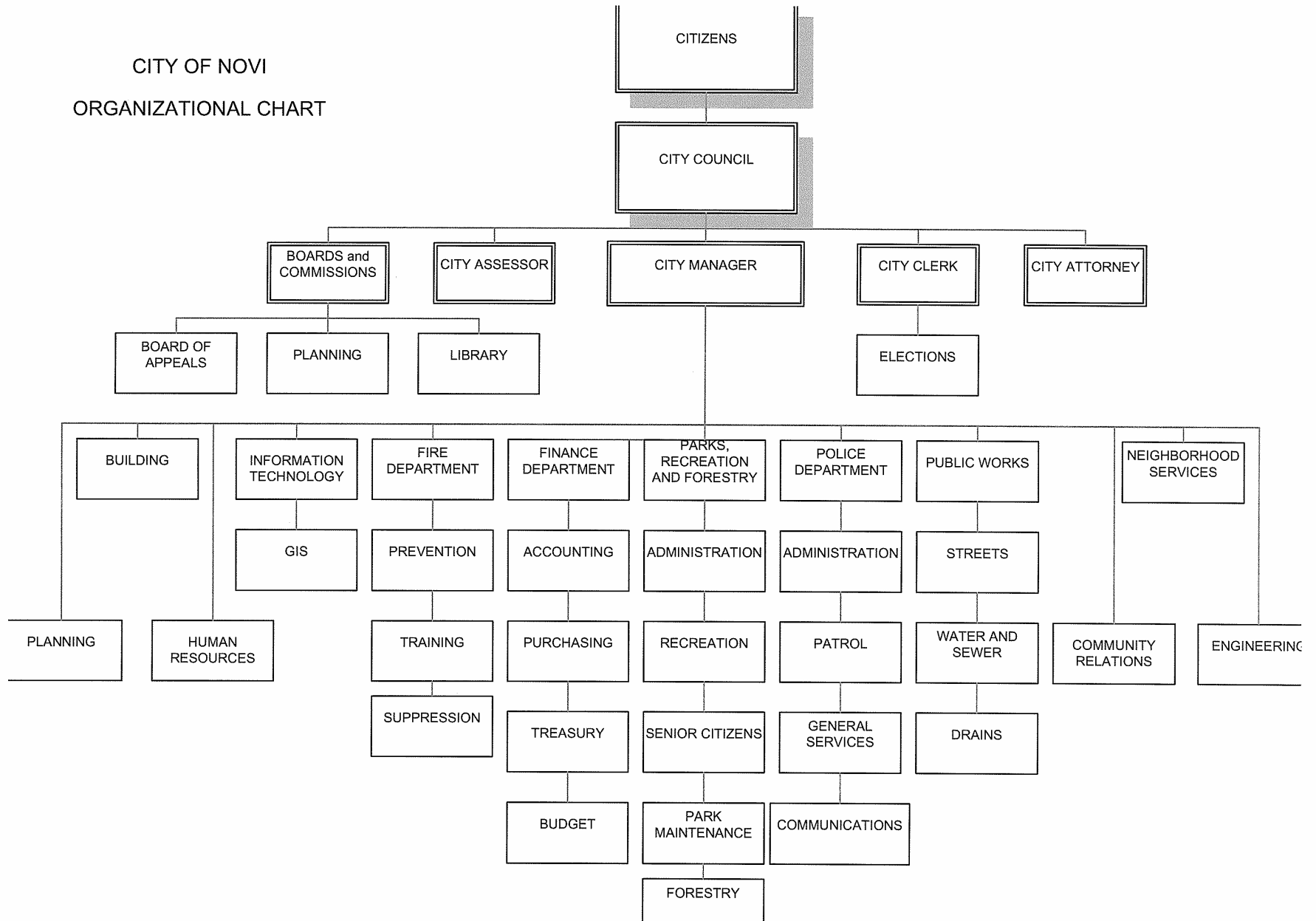
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF NOVI
ORGANIZATIONAL CHART



City of Novi, Michigan

List of Principal Officials June 30, 2005

Title	Name
City Manager	Richard B. Helwig
Assistant City Manager	Clay J. Pearson
Assessor	David G. Lemmon
Deputy Assessor	Kenneth J. Cheyne
City Clerk	Maryanne Cornelius
Deputy City Clerk	Mary Ann Cabadas
Director of Human Resources	Tia M. Gronlund-Fox
Community Relations Manager	Sheryl L. Walsh
Director of Public Works	William A. McCusker
Assistant Director of Public Works	Gary C. Clark
GIS Manager	Christopher Blough
Building Official	Donald M. Saven
City Forester	Steve C. Printz
Fire Chief	Arthur R. Lenaghan
Assistant Fire Chief	Jeffery R. Johnson
Parks, Recreation, and Forestry Director	Randall A. Auler
Deputy Parks, Recreation, and Forestry Director	Jack Lewis
Parks Superintendent	Matthew Wiktorowski
Police Chief	David Molloy
Library Director	Brenda J. Evans
Neighborhood Services Coordinator	Cynthia M. Uglow
Planning Director	Barbara E. McBeth
Finance Director/Treasurer	Kathy A. Smith-Roy
Assistant Finance Director	Marina Neumaier
Senior Financial Manager	Jeffrey D. Hall
Assistant City Treasurer	Beverly A. Valente
Budget Analyst	Stephanie J. Sharpe
Purchasing Official	Carol Kalinovik

City of Novi, Michigan

Fund Organization Chart

Governmental Funds	
Fund Name	Special Revenue Funds
General Fund	
Debt Service Funds	Major Street
	Local Street
	Municipal Street
Special Assessments	Police and Fire
1997 Voted Street	Parks, Recreation, and Forestry
2000 Voted Street	Drain Revenue
2000 Limited Tax Debt Fund	Drain Perpetual Maintenance
2002 Michigan Transportation Fund Refunding Debt	Special Assessment Revolving
1997 Fire Debt	Judgment Trust
1999 Police Debt Fund	Contributions and Donations
2003 Refunding Debt Fund	Federal Forfeiture Fund
2002 Street and Refunding Debt	Library
1993 Refunding Debt Fund	Walker Building Fund
	Capital Projects
	Capital Improvement
	2000 Voted Street Construction
	1997 Fire Capital Improvement
	1999 Police Building Construction
Proprietary Fund - Enterprise Funds	
Ice Arena	
Water and Sewer	
Senior Housing	
Fiduciary Funds	
Pension and Other Employee Benefit	
Trust Fund	Agency
Retiree Health Care Benefits	Agency
Component Unit	
Economic Development Corporation	

Independent Auditor's Report

To the City Council
City of Novi, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the discretely presented component unit of the City of Novi, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Novi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the discretely presented component unit of the City of Novi as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Novi, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Novi's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical tables, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the City of Novi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 30, 2005

The City of Novi's (the "City") discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended June 30, 2005. The information presented here should be read in conjunction with our letter of transmittal, the financial statements, and notes to the financial statements that follow.

Financial Highlights

- Total assets related to the City's governmental activities exceeded liabilities at June 30, 2005 by \$110,322,850.
- Investment in capital assets (net of depreciation and related debt) accounts for over half of this amount, with a value of \$62,204,015.
- Of the remaining net assets, \$6,876,193 may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- Net assets related to the City's governmental activities increased by \$8,461,313, or 8 percent, during fiscal year 2004-2005.
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$38,370,649. Unreserved fund balance of the General Fund totaled \$7,204,337 at June 30, 2005, of which \$7,054,646 was undesignated. Unreserved fund balance represents the amount of financial resources available for future spending or appropriation.
- Total direct debt at June 30, 2005 was \$105,306,959.

Overview of the Financial Statements

This discussion and analysis provides an introduction and overview to the City's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other financial discussion and analysis of certain plans, projects, and trends necessary for understanding the full context of the financial condition of the City.

Basic Financial Statements - The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The financial section of this report also contains required supplemental information, in addition to the basic financial statements.

Government-wide Financial Statements - Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business, distinguishing functions of Novi that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities").

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets presents information on all of Novi's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business and presents a longer-term view of the City's finances. Over time, increases or decreases in net assets can serve as one indicator of the financial position of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The statement of activities presents information showing how the City's net assets changed during the year. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. Items such as deferred special assessments and earned but unused employee leave time will be included in the statement of activities as revenue and expense, even though the cash flows associated with these items will be recognized in future fiscal periods.

In accordance with GASB No. 14, *The Financial Reporting Entity*, the City has identified certain entities as component units in the government-wide financial statements. By virtue of its authority to exercise influence over their operations, the City has included the financial statements of the Economic Development Corporation, which is a discretely presented component unit within the government-wide financial statements.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Novi, like other state and local governments, establishes funds for compliance with finance-related legal requirements. All of the funds of the City of Novi fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported functions. Proprietary funds account for a government's business-type activities where all or part of the costs of activities are supported by fees and charges that are paid by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds - The City of Novi maintains 28 individual governmental funds. The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund and the Municipal Street Fund. These funds are considered major funds as of June 30, 2005. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the measurement focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. The government-wide statements give readers a better understanding of the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The City of Novi adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Municipal Street Fund within the required supplemental information. Budgetary comparisons for other nonmajor governmental funds are presented within the other supplemental section of the report.

Proprietary Funds - Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, ice arena, and senior housing activities. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the propriety fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the same two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

The proprietary fund financial statements provide separate information for the Water and Sewer Fund, Ice Arena Fund, and the Senior Housing Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Novi's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided and are an integral part of the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund and the Municipal Street Fund. The combining statements in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of Net Assets - As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Novi's assets exceeded total liabilities by \$263,800,314 at the close of June 30, 2005. The following table shows, in a condensed format, the net assets as of June 30, 2005.

Table I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 53,800,797	\$ 53,495,514	\$ 46,670,855	\$ 43,632,161	\$ 100,471,652	\$ 97,127,675
Noncurrent assets:						
Restricted assets	6,090,752	6,345,148	10,463,974	10,505,222	16,554,726	16,850,370
Capital assets	123,251,518	120,447,933	141,383,323	136,841,559	264,634,841	257,289,492
Total assets	183,143,067	180,288,595	198,518,152	190,978,942	381,661,219	371,267,537
Liabilities						
Current liabilities	12,486,337	11,921,078	7,462,729	5,437,928	19,949,066	17,359,006
Long-term liabilities	60,333,880	66,505,980	37,577,959	39,750,000	97,911,839	106,255,980
Total liabilities	72,820,217	78,427,058	45,040,688	45,187,928	117,860,905	123,614,986
Net Assets						
Invested in capital assets -						
Net of related debt	62,204,015	62,117,983	101,580,364	95,306,559	163,784,379	157,424,542
Restricted	41,242,642	35,410,689	10,763,974	10,905,222	52,006,616	46,315,911
Unrestricted (deficit)	6,876,193	4,332,865	41,133,126	39,579,233	48,009,319	43,912,098
Total net assets	<u>\$ 110,322,850</u>	<u>\$ 101,861,537</u>	<u>\$ 153,477,464</u>	<u>\$ 145,791,014</u>	<u>\$ 263,800,314</u>	<u>\$ 247,652,551</u>

Over 56 percent of the City's net assets reflect its investment in capital, less any related debt used to acquire those assets that are still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets related to governmental activities of \$6,876,193 represent the amount that may be used to meet the City's ongoing obligations.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Changes in Net Assets - The City's total net assets increased by \$16,147,763 during fiscal year 2004-2005. Governmental activities increased net assets by \$8,461,313, which represents 52 percent of the total growth in net assets for the City of Novi. The General Fund's unrestricted portion of net assets increased by \$2,184,170. Actual General Fund revenues performed better than projected by \$912,261. In addition, the City of Novi received \$1,332,410 in drug forfeiture funds as a result of a cooperative effort between the Novi police department and the drug enforcement administration. Business-type activities increased net assets by \$7,686,450, which represents 48 percent of the total growth in net assets for the City of Novi. The Water and Sewer Fund accounts for the majority of this increase and is attributable to water and sewer lines contributed by developers and system-connection related fees. Key elements of these increases are shown in the following table.

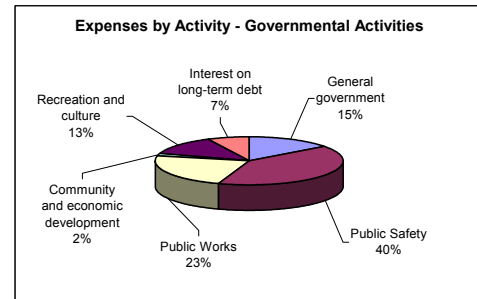
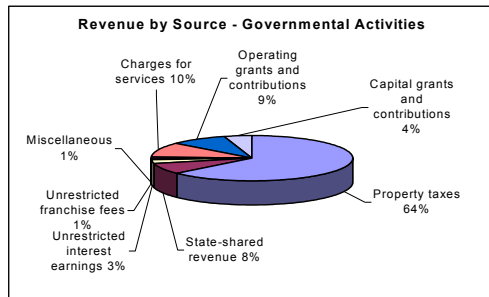
Table 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 5,021,582	\$ 4,197,529	\$ 15,836,434	\$ 15,403,764	\$ 20,858,016	\$ 19,601,293
Operating grants and contributions	4,406,610	3,484,063	-	-	4,406,610	3,484,063
Capital grants and contributions	2,171,125	2,223,129	10,305,554	14,915,510	12,476,679	17,138,639
General revenue:						
Property taxes	30,565,158	28,321,001	-	-	30,565,158	28,321,001
State-shared revenue	3,756,453	3,812,543	-	-	3,756,453	3,812,543
Unrestricted investment earnings	1,357,939	949,504	1,849,517	1,349,270	3,207,456	2,298,774
Franchise fees	280,416	266,880	-	-	280,416	266,880
Other	691,558	821,331	-	-	691,558	821,331
Total revenue	48,250,841	44,075,980	27,991,505	31,668,544	76,242,346	75,744,524
Program Expenses						
General government	5,842,870	6,231,101	-	-	5,842,870	6,231,101
Public safety	16,168,230	15,291,311	-	-	16,168,230	15,291,311
Public works	9,168,248	8,429,310	-	-	9,168,248	8,429,310
Community and economic development	663,232	713,015	-	-	663,232	713,015
Recreation and culture	5,020,595	4,800,821	-	-	5,020,595	4,800,821
Interest on long-term debt	2,926,353	3,788,247	-	-	2,926,353	3,788,247
Water and sewer	-	-	16,771,488	15,150,583	16,771,488	15,150,583
Ice arena	-	-	1,734,652	1,798,053	1,734,652	1,798,053
Senior housing	-	-	1,798,915	1,763,643	1,798,915	1,763,643
Total program expenses	39,789,528	39,253,805	20,305,055	18,712,279	60,094,583	57,966,084
Change in Net Assets	8,461,313	4,822,175	7,686,450	12,956,265	16,147,763	17,778,440
Net Assets - Beginning of year	101,861,537	97,039,362	145,791,014	132,834,749	247,652,551	229,874,111
Net Assets - End of year	<u>\$ 110,322,850</u>	<u>\$ 101,861,537</u>	<u>\$ 153,477,464</u>	<u>\$ 145,791,014</u>	<u>\$ 263,800,314</u>	<u>\$ 247,652,551</u>

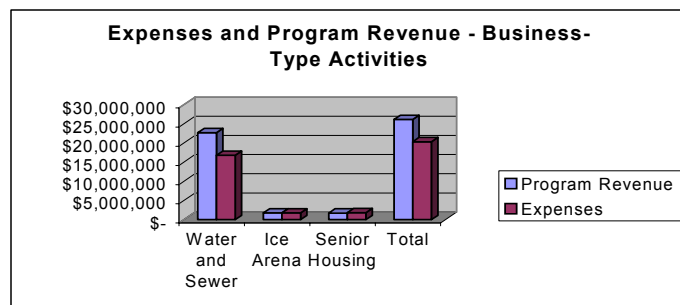
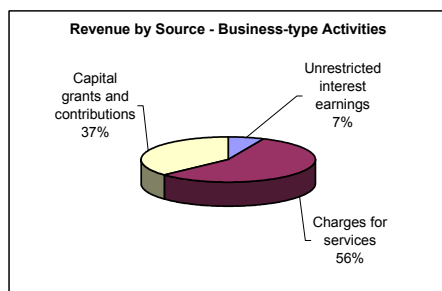
Governmental Activities - Program revenues, which include user fees and charges and restricted operating and capital grants and contributions, represent 23 percent of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and state revenue sharing.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)



Business-type Activities - Business-type activities increased the City's net assets by \$7,686,450. The Water and Sewer Fund accounts for the majority of this increase and represents water and sewer lines contributed by developers and system-connection related fees.



Financial Analysis of the City's Funds

Governmental Funds - The City has 28 governmental funds, categorized into four fund types. Each fund type has a unique purpose. Two funds are classified as major funds for the purposes of this report, based on criteria set forth by the Governmental Accounting Standards Board. Those funds are the General Fund and the Municipal Street Fund.

As of June 30, 2005, the governmental funds of the City reported a combined fund balance of \$38,370,649, an increase of \$609,245 in comparison with the prior year. Of this amount, \$7,054,646 represents undesignated fund balance of the General Fund, which may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund were \$41,055,953 as of June 30, 2005. The ice arena has an accumulated deficit of \$240,454. This deficit will be eliminated in future years by holding down costs and increasing user fees to equal competitive market rates and additional revenue from a cellular tower agreement with Sprint, entered into by the City in fiscal year 2000-2001.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Revenues outperformed budget expectations by \$912,261 for the fiscal year ended June 30, 2005. City departments overall stayed below budget, resulting in total expenditures below budget by \$2,370,601. Budget amendments increasing General Fund expenditures by \$1,989,250 were approved during the year. Significant budget changes included \$109,500 to enhance the City's building department software, \$162,500 for legal services, and \$120,000 for capital improvements to the DPW building.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2005, amounts to \$264,634,841 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. This reflects an increase in net capital assets of \$7,345,349 during the year.

	Governmental Activities		Business-type Activities		Total Activities	
	2005	2004	2005	2004	2005	2004
Land	\$ 23,491,551	\$ 22,933,826	\$ 2,034,701	\$ 2,034,701	\$ 25,526,252	\$ 24,968,527
Buildings and improvements	14,976,905	15,234,143	19,367,214	19,961,832	34,344,119	35,195,975
Machinery and equipment and library books	3,385,004	3,741,304	652,320	715,978	4,037,324	4,457,282
Infrastructure	81,398,058	78,538,660	109,316,378	98,307,054	190,714,436	176,845,714
Construction in progress	-	-	10,012,710	15,821,944	10,012,710	15,821,944
Total	<u>\$ 123,251,518</u>	<u>\$ 120,447,933</u>	<u>\$ 141,383,323</u>	<u>\$ 136,841,509</u>	<u>\$ 264,634,841</u>	<u>\$ 257,289,442</u>

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-term Debt - The City refunded \$9,000,000 of Building Authority Bonds, Series 1999 for the Meadowbrook Commons senior housing facility. These bonds were refunded through the issuance of \$9,920,000 of Building Authority Refunding Bonds. This refunding reduced total debt service payments, resulting in an economic gain of \$462,173.

In addition, the City refunded \$7,150,000 of Building Authority Bonds, Series 1997 for the Ice Arena facility. These bonds were refunded through the issuance of \$7,630,000 of Building Authority Refunding Bonds. This refunding reduced total debt service payments, resulting in an economic gain of \$235,603.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

The following table is a comparison of the summary information for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Activities	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 48,385,000	\$ 52,625,000	\$ -	\$ -	\$ 48,385,000	\$ 52,625,000
Michigan transportation fund bonds	1,745,000	2,015,000	-	-	1,745,000	2,015,000
Special assessment debt with government commitment	15,340,000	16,465,000	2,255,000	2,330,000	17,595,000	18,795,000
County contractual obligations	-	-	2,490,000	3,175,000	2,490,000	3,175,000
Installment purchase agreements	34,000	66,000	-	-	34,000	66,000
Revenue bonds	-	-	13,155,000	13,680,000	13,155,000	13,680,000
Building authority bonds	-	-	21,902,959	22,350,000	21,902,959	22,350,000
Total	<u>\$ 65,504,000</u>	<u>\$ 71,171,000</u>	<u>\$ 39,802,959</u>	<u>\$ 41,535,000</u>	<u>\$ 105,306,959</u>	<u>\$ 112,706,000</u>

Additional information on the City's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

The budget plan, as approved in the fiscal year 2005-2006 budget, continues to maintain a minimum of 10 percent of current year's expenditures be set aside for unforeseen emergencies. The estimated revenue by the building department remains strong, which correlates to the continued increase in property tax revenue as a result of the increase in taxable values. The General Fund property tax revenue is estimated at \$14,249,000 for 2005-2006.

The 2005 approved tax millage rate continues to remain at 10.5416 mills. This rate is less than the average millage rate (10.6) for the last seven years and among the lowest municipal millages in Oakland County. Unreserved fund balance in the General Fund is \$7,139,595; of this amount, \$84,949 has been designated for subsequent year's expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City of Novi's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the finance department, City of Novi, 45175 W. Ten Mile Road, Novi, MI 48375.

City of Novi, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Unit - Economic Development Corporation
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 32,591,062	\$ 43,098,147	\$ 75,689,209	\$ 29,850
Accounts receivable:				
Other governmental units	1,888,610	-	1,888,610	-
Water and sewer billings	-	2,760,995	2,760,995	-
Taxes	727,252	-	727,252	-
Special assessments	17,795,715	-	17,795,715	-
Other	215,898	1,291,405	1,507,303	35,000
Internal balances (Note 4)	582,260	(582,260)	-	-
Prepaid and other assets	-	6,379	6,379	-
Inventory	-	96,189	96,189	-
Restricted assets (Note 5)	6,090,752	10,463,974	16,554,726	-
Capital assets - Net (Note 6):				
Depreciable	99,759,967	129,335,912	229,095,879	-
Nondepreciable	23,491,551	12,047,411	35,538,962	-
Total assets	183,143,067	198,518,152	381,661,219	64,850
Liabilities				
Accounts payable	2,300,835	3,131,293	5,432,128	-
Accrued and other liabilities	1,943,112	702,458	2,645,570	-
Due to other governmental units	-	1,053,984	1,053,984	-
Unearned revenue (Note 7)	453,727	4,073	457,800	-
Receipts refundable	-	284,551	284,551	-
Noncurrent liabilities:				
Bonds payable, due within one year (Note 8)	6,059,000	2,225,000	8,284,000	-
Bonds payable, due in more than one year (Note 8)	59,445,000	37,577,959	97,022,959	-
Employee compensated absences, due within one year (Note 1)	1,489,490	61,370	1,550,860	-
Employee compensated absences, due in more than one year (Note 1)	888,880	-	888,880	-
Claims and judgments due within one year (Note 9)	240,173	-	240,173	-
Total liabilities	72,820,217	45,040,688	117,860,905	-
Net Assets				
Invested in capital assets - Net of related debt	62,204,015	101,580,364	163,784,379	-
Restricted:				
Streets and highways	4,420,213	-	4,420,213	-
Drains	8,809,124	-	8,809,124	-
Debt service	1,022,959	1,475,000	2,497,959	-
Special assessments	21,421,849	8,988,974	30,410,823	-
Police and fire	1,828,972	-	1,828,972	-
Federal forfeitures	1,339,066	-	1,339,066	-
Parks and recreation	613,025	300,000	913,025	-
Library	588,695	-	588,695	-
Donations	1,133,997	-	1,133,997	-
Construction code fees (Note 10)	64,742	-	64,742	-
Unrestricted	6,876,193	41,133,126	48,009,319	64,850
Total net assets	\$ 110,322,850	\$ 153,477,464	\$ 263,800,314	\$ 64,850

City of Novi, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 5,842,870	\$ 63,822	\$ -	\$ -
Public safety	16,168,230	2,849,549	1,426,755	-
Public works	9,168,248	326,621	2,956,436	2,028,139
Community and economic development	663,232	606,814	-	-
Recreation and culture	5,020,595	1,174,776	23,419	142,986
Interest on long-term debt	2,926,353	-	-	-
Total governmental activities	39,789,528	5,021,582	4,406,610	2,171,125
Business-type activities:				
Water and sewer	16,771,488	12,382,451	-	10,302,054
Ice arena	1,734,652	1,736,504	-	3,500
Senior housing	1,798,915	1,717,479	-	-
Total business-type activities	20,305,055	15,836,434	-	10,305,554
Total primary government	<u>\$ 60,094,583</u>	<u>\$ 20,858,016</u>	<u>\$ 4,406,610</u>	<u>\$ 12,476,679</u>
Component unit - Economic Development Corporation	<u>\$ 310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted interest earnings				
Unrestricted cable television franchise fees				
Miscellaneous				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental	Business-type	Total	Unit -
Activities	Activities		Economic
			Development
			Corporation
\$ (5,779,048)	\$ -	\$ (5,779,048)	\$ -
(11,891,926)	-	(11,891,926)	-
(3,857,052)	-	(3,857,052)	-
(56,418)	-	(56,418)	-
(3,679,414)	-	(3,679,414)	-
(2,926,353)	-	(2,926,353)	-
(28,190,211)	-	(28,190,211)	-
-	5,913,017	5,913,017	-
-	5,352	5,352	-
-	(81,436)	(81,436)	-
-	5,836,933	5,836,933	-
(28,190,211)	5,836,933	(22,353,278)	-
-	-	-	(310)
30,565,158	-	30,565,158	-
3,756,453	-	3,756,453	-
1,357,939	1,849,517	3,207,456	599
280,416	-	280,416	-
691,558	-	691,558	-
36,651,524	1,849,517	38,501,041	599
8,461,313	7,686,450	16,147,763	289
101,861,537	145,791,014	247,652,551	64,561
\$ 110,322,850	\$ 153,477,464	\$ 263,800,314	\$ 64,850

City of Novi, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 5,825,679	\$ 1,406,099	\$ 25,359,284	\$ 32,591,062
Accounts receivable:				
Other governmental units	1,221,217	4,180	663,213	1,888,610
Taxes	338,131	55,749	333,372	727,252
Special assessments	-	15,985,111	781,707	16,766,818
Other	147,978	-	67,920	215,898
Due from other funds (Note 4)	603,520	-	3,841	607,361
Restricted assets (Note 5)	-	2,414,912	3,675,840	6,090,752
Total assets	<u>\$ 8,136,525</u>	<u>\$ 19,866,051</u>	<u>\$ 30,885,177</u>	<u>\$ 58,887,753</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 575,634	\$ 216,963	\$ 1,508,238	\$ 2,300,835
Accrued and other liabilities	323,002	-	897,196	1,220,198
Due to other funds (Note 4)	-	-	25,101	25,101
Deferred revenue (Note 7)	33,552	15,985,111	952,307	16,970,970
Total liabilities	932,188	16,202,074	3,382,842	20,517,104
Fund Balances				
Fund balances:				
Reserved for:				
Construction code fees (Note 10)	64,742	-	-	64,742
Restricted assets	-	2,386,157	3,646,790	6,032,947
Unreserved, reported in:				
General Fund - Designated (Note 11)	84,949	-	-	84,949
General Fund - Undesignated	7,054,646	-	-	7,054,646
Special Revenue Funds - Designated (Note 11)	-	495,910	2,146,626	2,642,536
Special Revenue Funds - Undesignated	-	781,910	16,229,463	17,011,373
Debt Service Funds - Undesignated	-	-	1,022,959	1,022,959
Capital Projects Funds - Undesignated	-	-	4,456,497	4,456,497
Total fund balances	<u>7,204,337</u>	<u>3,663,977</u>	<u>27,502,335</u>	<u>38,370,649</u>
Total liabilities and fund balances	<u>\$ 8,136,525</u>	<u>\$ 19,866,051</u>	<u>\$ 30,885,177</u>	<u>\$ 58,887,753</u>

City of Novi, Michigan

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Total Fund Balances of Governmental Funds	\$ 38,370,649
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	123,251,518
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures (including \$1,028,897 of accrued interest on special assessments)	17,546,140
Bonds, obligations, and agreements are not due and payable in the current period and are not reported in the funds	(65,504,000)
Compensated absences are not due and payable in the current period and are not reported in the funds	(2,378,370)
Estimated general liability claims are not due and payable in the current period and are not reported in the funds	(240,173)
Interest related to long-term debt is not due and payable in the current period and is not reported in the funds	(722,914)

Net Assets of Governmental Activities	<u>\$ 110,322,850</u>
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City of Novi, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 13,669,436	\$ 2,217,569	\$ 14,678,337	\$ 30,565,342
Licenses, permits, and charges for services	3,722,805	-	-	3,722,805
Federal grants	72,596	77,877	540,534	691,007
State sources	3,778,202	-	3,042,619	6,820,821
Special assessments collected	-	1,228,081	130,099	1,358,180
Fines and forfeitures	404,417	-	1,436,754	1,841,171
Interest income	577,249	1,106,097	768,029	2,451,375
Recreational programs	-	-	847,606	847,606
Gifts and donations	-	-	13,782	13,782
Other revenue	576,627	86,278	352,508	1,015,413
Total revenue	22,801,332	4,715,902	21,810,268	49,327,502
Expenditures				
Current services:				
City Council	5,142	-	-	5,142
City manager	588,392	-	-	588,392
Finance	683,494	-	-	683,494
Information technology	335,892	-	-	335,892
Assessing	628,395	-	-	628,395
City attorney	460,265	-	-	460,265
City clerk	545,666	-	-	545,666
Treasury	274,503	-	-	274,503
Buildings and grounds	699,789	-	-	699,789
Community relations	280,850	-	-	280,850
General administration	1,335,690	-	7,066	1,342,756
Police department	9,706,073	-	-	9,706,073
Fire department	3,740,265	-	-	3,740,265
Building department	1,769,951	-	-	1,769,951
Neighborhood services	425,959	-	-	425,959
Department of Public Works	665,697	-	-	665,697
Engineering	374,411	-	-	374,411
Planning Commission	55,580	-	-	55,580
Planning	607,832	-	-	607,832
Construction	-	622,914	7,643,668	8,266,582
Street maintenance	-	381,047	2,343,538	2,724,585
Drain maintenance	-	-	429,265	429,265
Recreational programs	-	-	1,802,210	1,802,210
Forestry and park maintenance	-	-	1,009,631	1,009,631
Library programs	-	-	2,222,296	2,222,296
Other	-	-	177,186	177,186
Capital outlay	-	-	238,090	238,090
Debt service	34,400	1,902,363	6,720,737	8,657,500
Total expenditures	23,218,246	2,906,324	22,593,687	48,718,257
Excess of Revenue Over (Under) Expenditures	(416,914)	1,809,578	(783,419)	609,245

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Novi, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2005

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Transfers in (Note 4)	\$ 3,750,543	\$ -	\$ 4,484,829	\$ 8,235,372
Transfers out (Note 4)	<u>(1,262,599)</u>	<u>(2,450,000)</u>	<u>(4,522,773)</u>	<u>(8,235,372)</u>
Total other financing sources (uses)	<u>2,487,944</u>	<u>(2,450,000)</u>	<u>(37,944)</u>	<u>-</u>
Net Change in Fund Balances	2,071,030	(640,422)	(821,363)	609,245
Fund Balances - Beginning of year	<u>5,133,307</u>	<u>4,304,399</u>	<u>28,323,698</u>	<u>37,761,404</u>
Fund Balances - End of year	<u>\$ 7,204,337</u>	<u>\$ 3,663,977</u>	<u>\$ 27,502,335</u>	<u>\$ 38,370,649</u>

City of Novi, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	609,245
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		2,803,585
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		(1,076,661)
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Repayment of bond principal is recorded as an expenditure in the governmental funds, but not in the statement of activities (where these transactions are recorded as a reduction of a liability)		5,667,000
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Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities		111,870
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Decrease in estimated general liability is recorded when paid in the governmental funds		282,127
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Interest accrued on long-term debt is an expenditure in the statement of activities, but not in the governmental funds		64,147
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Change in Net Assets of Governmental Activities	\$	<u>8,461,313</u>
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City of Novi, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2005

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 41,803,258	\$ 62,037	\$ 1,232,852	\$ 43,098,147
Accounts receivable:				
Water and sewer billing	2,760,995	-	-	2,760,995
Other	1,241,595	6,975	42,835	1,291,405
Prepaid expense	-	379	6,000	6,379
Inventory	92,730	3,459	-	96,189
Total current assets	45,898,578	72,850	1,281,687	47,253,115
Noncurrent assets:				
Restricted assets (Note 5)	10,463,974	-	-	10,463,974
Capital assets (Note 6)	119,783,757	7,679,162	13,920,404	141,383,323
Total noncurrent assets	130,247,731	7,679,162	13,920,404	151,847,297
Total assets	176,146,309	7,752,012	15,202,091	199,100,412
Liabilities				
Current liabilities:				
Accounts payable	3,076,139	30,224	24,930	3,131,293
Accrued and other liabilities	427,951	54,654	281,223	763,828
Due to other funds (Note 4)	-	582,260	-	582,260
Due to other governmental units	1,053,984	-	-	1,053,984
Deferred revenue	-	-	4,073	4,073
Receipts refundable	284,551	-	-	284,551
Current portion of long-term liabilities (Note 8)	1,510,000	260,000	455,000	2,225,000
Total current liabilities	6,352,625	927,138	765,226	8,044,989
Noncurrent liabilities - Long-term debt - Net of deferred amount on refunding	16,390,000	7,065,328	14,122,631	37,577,959
Total liabilities	22,742,625	7,992,466	14,887,857	45,622,948
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	101,883,757	353,834	(657,227)	101,580,364
Restricted for:				
Bond reserve	1,475,000	-	-	1,475,000
Special assessments	8,988,974	-	-	8,988,974
Replacement reserve	-	-	300,000	300,000
Unrestricted (deficit)	41,055,953	(594,288)	671,461	41,133,126
Total net assets (deficit)	\$ 153,403,684	\$ (240,454)	\$ 314,234	\$ 153,477,464

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2005

	Water and Sewer Fund	Ice Arena	Senior Housing	Total Enterprise Fund
Operating Revenue				
Water sales	\$ 6,100,051	\$ -	\$ -	\$ 6,100,051
Sewer service charges	5,251,249	-	-	5,251,249
Concession sales	-	125,715	-	125,715
Rentals and other charges for services	-	1,534,412	1,695,363	3,229,775
Penalties	119,955	-	-	119,955
Inspection fees	17,375	-	-	17,375
Installation charges	645,776	-	-	645,776
Miscellaneous revenue	248,045	76,377	22,116	346,538
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenue	12,382,451	1,736,504	1,717,479	15,836,434
Operating Expenses				
Cost of water	5,258,983	-	-	5,258,983
Cost of sewage disposal	4,986,037	-	-	4,986,037
Cost of goods sold	-	55,627	-	55,627
Salaries and fringe benefits	922,122	-	-	922,122
Contractual services	40,949	524,994	167,126	733,069
Management contract	-	93,009	42,336	135,345
Municipal service charges	311,100	-	-	311,100
Depreciation	3,001,592	255,349	358,798	3,615,739
Repairs and maintenance	148,076	53,297	158,395	359,768
Utilities	11,444	216,423	116,619	344,486
Insurance	27,704	16,217	29,100	73,021
Office supplies	20,722	3,518	6,875	31,115
Advertising	-	6,368	1,243	7,611
Professional services	309,976	2,107	49,391	361,474
Operating supplies	30,766	20,998	19,116	70,880
Installation expenses	753,065	-	-	753,065
Vehicle expenses	34,873	-	-	34,873
Education and training	4,957	2,064	654	7,675
Recreational programs	-	58,789	-	58,789
Miscellaneous expenses	24,259	9,635	2,103	35,997
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	15,886,625	1,318,395	951,756	18,156,776
Operating Income (Loss)	(3,504,174)	418,109	765,723	(2,320,342)

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Continued) Year Ended June 30, 2005

	Water and Sewer Fund	Ice Arena	Senior Housing	Total Enterprise Fund
Nonoperating Income (Expense)				
Interest earned	\$ 2,033,902	\$ -	\$ 52,189	\$ 2,086,091
Interest expense	<u>(884,863)</u>	<u>(416,257)</u>	<u>(847,159)</u>	<u>(2,148,279)</u>
Total nonoperating income (expense)	<u>1,149,039</u>	<u>(416,257)</u>	<u>(794,970)</u>	<u>(62,188)</u>
Nonoperating Income (Loss) - Before capital contributions	(2,355,135)	1,852	(29,247)	(2,382,530)
Capital Contributions				
Contributions and donations	-	3,500	-	3,500
Donated water and sewer lines	6,212,819	-	-	6,212,819
Customer assessments - Tap fees	3,199,711	-	-	3,199,711
Special assessments	<u>652,950</u>	<u>-</u>	<u>-</u>	<u>652,950</u>
Total capital contributions	<u>10,065,480</u>	<u>3,500</u>	<u>-</u>	<u>10,068,980</u>
Change in Net Assets	7,710,345	5,352	(29,247)	7,686,450
Net Assets (Deficit) - Beginning of year	<u>145,693,339</u>	<u>(245,806)</u>	<u>343,481</u>	<u>145,791,014</u>
Net Assets (Deficit) - End of year	<u><u>\$ 153,403,684</u></u>	<u><u>\$ (240,454)</u></u>	<u><u>\$ 314,234</u></u>	<u><u>\$ 153,477,464</u></u>

City of Novi, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Water and Sewer Fund	Ice Arena	Senior Housing	Total Enterprise Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 11,280,340	\$ 1,656,967	\$ 1,689,987	\$ 14,627,294
Payments to suppliers	(11,198,242)	(1,087,935)	(569,314)	(12,855,491)
Payments to employees	(922,122)	-	-	(922,122)
Payments to other governmental units	1,053,984	-	-	1,053,984
Internal activity - Payments to other funds	-	(39,986)	-	(39,986)
Other receipts	248,045	76,377	22,116	346,538
Net cash provided by operating activities	462,005	605,423	1,142,789	2,210,217
Cash Flows from Capital and Related Financing Activities				
Collection of customer assessments (principal and interest)	3,901,344	-	-	3,901,344
Purchase of capital assets	(1,894,412)	(31,266)	(15,506)	(1,941,184)
Principal and interest paid on capital debt	(2,202,597)	(649,612)	(1,133,870)	(3,986,079)
Net cash used in capital and related financing activities	(195,665)	(680,878)	(1,149,376)	(2,025,919)
Cash Flows from Investing Activities - Interest received on investments	2,033,902	-	52,189	2,086,091
Net Increase (Decrease) in Cash and Cash Equivalents	2,300,242	(75,455)	45,602	2,270,389
Cash and Cash Equivalents - Beginning of year	46,224,575	137,492	1,187,250	47,549,317
Cash and Cash Equivalents - End of year	<u>\$ 48,524,817</u>	<u>\$ 62,037</u>	<u>\$ 1,232,852</u>	<u>\$ 49,819,706</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 41,803,258	\$ 62,037	\$ 1,232,852	\$ 43,098,147
Restricted investments (Note 5)	6,721,559	-	-	6,721,559
Total cash and cash equivalents	<u>\$ 48,524,817</u>	<u>\$ 62,037</u>	<u>\$ 1,232,852</u>	<u>\$ 49,819,706</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (3,504,174)	\$ 418,109	\$ 765,723	\$ (2,320,342)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	3,001,592	255,349	358,798	3,615,739
Changes in assets and liabilities:				
Receivables	(742,306)	2,053	(7,541)	(747,794)
Inventory	11,633	-	-	11,633
Other assets	-	407	-	407
Accounts payable	753,036	(22,696)	24,930	755,270
Accrued and other liabilities	(111,760)	(7,813)	879	(118,694)
Due to other governmental units	1,053,984	-	-	1,053,984
Internal activity	-	(39,986)	-	(39,986)
Net cash provided by operating activities	<u>\$ 462,005</u>	<u>\$ 605,423</u>	<u>\$ 1,142,789</u>	<u>\$ 2,210,217</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, developers constructed water and sewer lines with an estimated value of \$6,212,819 and donated them to the City. In addition, the City has funds on deposit with both Wayne County and Oakland County for the construction of water and sewer lines. During the year, \$2,473 of interest was earned on these funds.

City of Novi, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefits - Retiree Health Care Benefits	Agency
Assets		
Cash and cash equivalents (Note 3)	\$ 875	\$ 5,116,824
U.S. government securities	1,541,644	6,241,024
Bank investment pools	403,434	1,318,239
Mutual funds	2,040,936	568
Interlocal agreement investment pools	-	918,058
Total assets	3,986,889	<u><u>\$ 13,594,713</u></u>
Liabilities		
Due to builders and developers	-	\$ 13,461,956
Due to school and other governmental units	-	132,757
Total liabilities	-	<u><u>\$ 13,594,713</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 3,986,889</u></u>	

City of Novi, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefits - Retiree Health Care Benefits
Additions	
Investment income - Net increase in fair value of investments	\$ 71,767
Contributions - Employer	<u>649,243</u>
Total additions	721,010
Deductions - Insurance expenses	<u>212,095</u>
Change in Net Assets	508,915
Net Assets - Beginning of year	<u>3,477,974</u>
Net Assets - End of year	<u><u>\$ 3,986,889</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Novi (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Novi:

Reporting Entity

The City is governed by an elected seven-member City Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Novi and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The Economic Development Corporation of the City of Novi was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body is selected by the City Council, and therefore, the City has the ability to impose its will on the Corporation. The Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. A separate financial report for the Economic Development Corporation may be obtained from the finance department located at the City of Novi Civic Center, 45175 W. Ten Mile Road, Novi, MI 48375.

Blended Component Unit - The City of Novi Building Authority is governed by a council that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance the City's ice arena and senior housing project.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue. This also includes unrestricted franchise fees that result from cable television fees, not a program of the City.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to debt service compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses, state-shared revenue (which is unrestricted), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Municipal Street Fund - The Municipal Street Fund is used to enhance the Major and Local Street Funds. This fund receives its revenue pursuant to a special millage as designated by Charter for street and highway improvement purposes.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Ice Arena Fund - The Ice Arena Fund accounts for the City's two-sheet arena.

Senior Housing Fund - The Senior Housing Fund accounts for the 175-unit senior housing project, financed using the Building Authority approach.

Additionally, the City reports the following fiduciary fund types:

Retiree Health Care Benefits Fund - The Retiree Health Care Benefits Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services, such as water and sewer distribution and collection, recreational services, and senior housing in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

Property Tax Revenue - Properties are assessed as of December 31; the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls. The County Tax Revolving Fund reimburses the City for the real property portion of these taxes and assumes collection responsibilities.

The 2004 taxable valuation of the City totaled approximately \$2.9 billion and is used for the July 1, 2004 tax bills; this resulted in property tax revenue as follows:

Purpose	Mills Levied	Approximate Revenue
City operating millage	4.6422	\$ 13,465,000
Police and fire supplemental millage	1.4282	4,143,000
Parks and recreation operations	0.3857	1,119,000
Library operations	0.7719	2,239,000
Drain maintenance operations	0.5105	1,481,000
Street maintenance operations	0.7719	2,239,000
Debt levies for streets, fire station, and refunding debt	2.0312	5,892,000

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond reserve" account is used to report resources set aside to protect against any potential future deficiencies in the revenue bond current debt service account.

In addition, specific assets held at Wayne County and Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to the counties based on specific contracts with them. The City has also classified as restricted assets those amounts due from special assessment contracts with property owners for water and sewer system and road construction and related debt payments due to the restricted nature of these funds once they are received.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, bridges, and nonmotorized improvements	25 to 30 years
Drains	25 years
Water and sewer distribution systems	50 years
Buildings and building improvements	35 to 50 years
Machinery and equipment	4 to 10 years
Library books	10 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. This liability has typically been charged to operations in the General, Parks, Recreation and Forestry, and Library funds in prior years.

The City's liability for compensated absences at June 30, 2005 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Due within one year	\$ 1,489,490	\$ 61,370	\$ 1,550,860
Due in more than one year	<u>888,880</u>	<u>-</u>	<u>888,880</u>
Total compensated absences	<u>\$ 2,378,370</u>	<u>\$ 61,370</u>	<u>\$ 2,439,740</u>

Changes in the liability for compensated absences are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities	\$ 2,490,240	\$ 1,946,818	\$ (2,058,688)	\$ 2,378,370
Business-type activities	<u>64,750</u>	<u>53,226</u>	<u>(56,606)</u>	<u>61,370</u>
Total compensated absences	<u>\$ 2,554,990</u>	<u>\$ 2,000,044</u>	<u>\$ (2,115,294)</u>	<u>\$ 2,439,740</u>

Claims and Judgments - The liability for claims and judgments has typically been charged to operations in the Judgment Trust and General Funds in prior years.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City adopts a formal budget for the General Fund and all Special Revenue Funds. All department heads submit spending requests to the city manager so that a budget may be prepared. Before the third Monday in April, the proposed budget is submitted to the City Council for review. Public hearings are held, and a final budget is adopted no later than the third Monday in May. Adoption of the budget requires approval of five votes of the seven-member City Council. The City Council must approve any budget amendments.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Municipal Street Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds is presented as other supplemental information. The Federal Forfeiture Fund was not budgeted and, therefore, its financial activity has been omitted from the budgetary comparison schedules.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget is adopted by category within activity (i.e., personal services, supplies, other services, and charges and capital outlay within each department). Although spending estimates are produced for each line item, budgetary control is exercised at this category level. Expenditures at this level must be approved by the City Council. Expenditures at this level in excess of budget appropriation are a violation of Michigan law. Encumbrances represent commitments related to unperformed contracts (or purchase orders) for goods or services. Encumbrances are not included as expenditures or liabilities; the amount of encumbrances outstanding at June 30, 2005 is not significant.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditure" categories, rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted. The unfavorable variances were caused by unanticipated expenditures that became necessary during the year. There are no significant budget overruns.

Fund Deficits - The Ice Arena has an accumulated deficit of \$240,454 as of June 30, 2005. This deficit will be eliminated in the future through increases in user charges to competitive market rates, maintaining costs, and additional revenue from a cellular tower agreement with Sprint, entered into by the City during fiscal year 2000-2001. This agreement generated \$36,866 for the ice arena for the year ended June 30, 2005.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The Retiree Health Care Benefits Fund is also authorized by Michigan Public Act 149 of 1999, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt, or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated 10 banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$34,375,740 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Carrying Value	How Held
U.S. government and agency securities	\$ 7,261,141	Counterparty

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Commercial paper	\$ 14,193,209	4 months
Interlocal agreement fund	3,278,906	31 days
U.S. government and agency securities:		
T-Bills	6,142,127	1 month
Federal Home Loan Mortgage Corporation	2,494,875	5 years
Fannie Mae	4,400,000	3 years
Federal Home Loan Banks	22,296,316	3.75 years
Freddie Mac	2,144,000	5 years
Federal Farm Credit Banks	219,890	1 year

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 31,555,081	AAA	S&P
Bank investment pool - Federated	4,751,995	AAA	S&P
Bank investment pools	2,131,839		Not rated
Interlocal agreement fund - MBIA	6,118,919		Not rated
Interlocal agreement fund - MIGIT	3,278,906	AAA	S&P
Commercial paper	14,193,209	A1+/P1	S&P

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Commerical paper - GE Capital	20.05%
U.S. government agencies:	
Federal Home Loan Banks	31.50%
Fannie Mae	6.22%

Note 4 - Interfund Receivables, Payables, and Transfers

The following is a summary of the interfund receivables at June 30, 2005:

Fund Due To	Fund Due From	Amount
General Fund	Ice Arena Fund	\$ 582,260
	1997 Fire Capital Improvement Fund	21,260
Local Street Fund	Major Street Fund	3,841
	Total interfund receivables	<u>\$ 607,361</u>

Interfund transfers consist of the following:

Transfer of property taxes collected by the Police and Fire Fund to the General Fund, where police and fire salaries are reported	\$ 3,745,000
Transfers of resources related to street expenditures (certain funds account for resources that are intended to be spent in other funds):	
Transfer from Major Street Fund to Local Street Fund	542,809
Transfer from Major Street Fund to 2002 Michigan Transportation Refunding Debt Fund	120,710
Transfer from Municipal Street Fund to Major Street Fund	2,000,000
Transfer from Municipal Street Fund to Local Street Fund	450,000
Transfer of unrestricted General Fund resources to fund the parks and recreation programs	845,374
Transfer of unrestricted General Fund resources to the Judgment Trust Fund	100,000
Transfer from Capital Improvement Fund to General Fund	5,543
Transfer from General Fund to fund debt service of the 2000 Limited Tax Debt Fund	229,675
Transfer from General Fund to fund future capital projects in the Capital Improvement Fund	87,550
Transfer from 1997 Voted Streets Debt Fund to 2003 Refunding Debt Fund	106,305
Transfer from 1997 Fire Debt Fund to 2002 Street and Refunding Debt Fund	2,406
Total interfund transfers	<u>\$ 8,235,372</u>

Note 5 - Restricted Assets and Reserves

Governmental Activities

Following is the detail of the governmental activities restricted assets at June 30, 2005:

Special Revenue Funds:

Cash and investments restricted for special assessments	\$ 4,949,920
Cash and investments restricted for contributions and donations	<u>1,140,832</u>
Total Special Revenue Funds	<u><u>\$ 6,090,752</u></u>

Business-type Activities

Specific assets of the business-type activities have been restricted by City ordinances, contracts with Oakland County, and special assessment contracts with property owners for water and sewer system construction and related debt payments.

Following is the detail of the business-type activities restricted assets at June 30, 2005:

Water and Sewer Fund:

Cash and investments restricted for 1992 revenue bond	\$ 1,475,000
Cash and investments restricted for special assessments	<u>5,246,559</u>
Total restricted cash and investments	6,721,559
Special assessments receivable	3,674,158
Net assets held by county:	
North Huron Valley/Rouge Valley	58,310
Huron-Rouge S.D.S., Walled Lake Arm Waste Water Treatment Plant	<u>9,947</u>
Net assets restricted in Water and Sewer Fund	<u><u>\$ 10,463,974</u></u>

Note 6 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Increase	Decrease	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 22,933,826	\$ 557,725	\$ -	\$ 23,491,551
Capital assets being depreciated:				
Roads	94,273,433	6,158,297	-	100,431,730
Nonmotorized pathway improvements	3,073,731	91,094	-	3,164,825
Bridges	1,341,630	95,249	-	1,436,879
Drains	17,569,245	1,364,217	-	18,933,462
Buildings and improvements	23,335,327	219,386	-	23,554,713
Machinery and equipment	8,577,692	273,502	112,246	8,738,948
Library books	3,744,930	424,110	230,940	3,938,100
Subtotal	151,915,988	8,625,855	343,186	160,198,657
Accumulated depreciation:				
Roads	27,963,175	3,929,172	-	31,892,347
Nonmotorized pathway improvements	942,384	105,524	-	1,047,908
Bridges	204,771	57,423	-	262,194
Drains	8,609,049	757,340	-	9,366,389
Buildings and improvements	8,101,184	588,870	112,246	8,577,808
Machinery and equipment	6,236,557	759,248	-	6,995,805
Library books	2,344,761	182,418	230,940	2,296,239
Subtotal	54,401,881	6,379,995	343,186	60,438,690
Net capital assets being depreciated	97,514,107	2,245,860	-	99,759,967
Net capital assets	\$ 120,447,933	\$ 2,803,585	\$ -	\$ 123,251,518

Note 6 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 2,034,701	\$ -	\$ -	\$ 2,034,701
Construction in progress	15,821,994	1,868,561	7,677,845	10,012,710
Subtotal	17,856,695	1,868,561	7,677,845	12,047,411
Capital assets being depreciated:				
Water and sewer distribution systems	130,051,868	13,888,552	-	143,940,420
Buildings and building improvements	23,069,447	15,507	-	23,084,954
Machinery and equipment	1,805,201	80,187	135,064	1,750,324
Subtotal	154,926,516	13,984,246	135,064	168,775,698
Accumulated depreciation:				
Water and sewer distribution systems	31,744,814	2,879,228	-	34,624,042
Buildings and building improvements	3,107,615	610,125	-	3,717,740
Machinery and equipment	1,089,223	126,386	117,605	1,098,004
Subtotal	35,941,652	3,615,739	117,605	39,439,786
Net capital assets being depreciated	118,984,864	10,368,507	17,459	129,335,912
Net capital assets	\$ 136,841,559	\$ 12,237,068	\$ 7,695,304	\$ 141,383,323

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 170,851
Public safety	693,611
Public works	5,095,917
Recreation and culture	419,616
Total governmental activities	<u>\$ 6,379,995</u>

Business-type activities:

Water and sewer	\$ 3,001,592
Ice arena	255,349
Senior housing	358,798
Total business-type activities	<u>\$ 3,615,739</u>

City of Novi, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects as of June 30, 2005. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street construction	\$ 4,069,698	\$ 247
Sewer projects	1,754,072	9,416
Water mains	1,967,570	172,152
Detention basins	748,674	327,175
Lake dredging	307,346	668,186
Booster pump station	43,320	1,053,126
Signalization projects	86,138	22,286
Parks and buildings	68,296	47,984
Total	<u>\$ 9,045,114</u>	<u>\$ 2,300,572</u>

Note 7 - Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 16,517,243	\$ 249,575
Recreation fees and other	-	204,152
Total	<u>\$ 16,517,243</u>	<u>\$ 453,727</u>

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General Obligation Bonds:							
1993 Unlimited Tax Refunding Bonds							
Amount of Issue - \$10,230,000							
Maturing through 2009	4.90% - 5.25%	\$740,000 - \$1,010,000	\$ 6,630,000	\$ -	\$ (1,010,000)	\$ 5,620,000	\$ 1,100,000
1997A Unlimited Tax Road Bonds							
Amount of Issue - \$9,000,000							
Maturing through 2004	4.75%	\$600,000	600,000	-	(600,000)	-	-
1997B Unlimited Tax Fire Station Bonds							
Amount of Issue - \$2,225,000							
Maturing through 2004	4.75%	\$150,000	150,000	-	(150,000)	-	-
1998 Unlimited Tax Road Bonds							
Amount of Issue - \$8,100,000							
Maturing through 2004	4.20%	\$400,000	400,000	-	(400,000)	-	-
1999 Unlimited Tax Police Station Bonds							
Amount of Issue - \$3,500,000							
Maturing through 2018	4.10% - 5.25%	\$150,000 - \$300,000	3,100,000	-	(150,000)	2,950,000	150,000
2001 Tax Road Bonds							
Amount of Issue - \$10,000,000							
Maturing through 2015	3.75% - 4.50%	\$525,000 - \$1,100,000	9,450,000	-	(500,000)	8,950,000	525,000
2002 Limited Tax Bonds							
Amount of Issue - \$2,000,000							
Maturing through 2012	\$4.00% - 5.00%	\$175,000 - \$275,000	1,850,000	-	(150,000)	1,700,000	175,000
2002 Street and Refunding Bonds							
Amount of Issue - \$24,720,000							
Maturing through 2017	3.00% - 5.25%	\$595,000 - \$3,020,000	23,880,000	-	(1,165,000)	22,715,000	2,110,000

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)							
General Obligation Bonds (Continued):							
2003 Unlimited Tax Refunding Bonds							
Amount of Issue - \$6,565,000							
Maturing through 2011	2.00% - 3.50%	\$575,000 - \$1,000,000	\$ 6,565,000	\$ -	\$ (115,000)	\$ 6,450,000	\$ 575,000
2002 Michigan Transportation Fund Refunding Bonds							
Amount of Issue - \$2,280,000							
Maturing through 2009	2.75% - 3.50%	\$265,000 - \$315,000	2,015,000	-	(270,000)	1,745,000	265,000
Special Assessment Bonds:							
1995 Special Assessment Bonds							
Amount of Issue - \$1,700,000							
Maturing through 2009	6.00% - 6.75%	\$100,000 - \$125,000	715,000	-	(125,000)	590,000	125,000
2000 Special Assessment Limited Tax Bonds							
Amount of Issue - \$18,435,000							
Maturing through 2015	4.75%	\$1,000,000 - \$1,500,000	15,750,000	-	(1,000,000)	14,750,000	1,000,000
Installment Purchase Agreements							
Lakeshore Park Property Installment Contract							
Amount of Issue - \$126,000							
Maturing through 2005	4.80%	\$34,000	66,000	-	(32,000)	34,000	34,000
Total governmental activities long-term liabilities			<u>\$ 71,171,000</u>	<u>\$ -</u>	<u>\$ (5,667,000)</u>	<u>\$ 65,504,000</u>	<u>\$ 6,059,000</u>
Business-type Activities							
County Drain Contract Obligations:							
Oakland County Contract							
Amount of Issue - \$8,200,000							
Maturing through 2008	5.00%	\$750,000	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ -
Oakland County Contract							
Amount of Issue - \$8,030,000							
Maturing through 2009	5.00% - 5.20%	\$85,000 - \$850,000	2,425,000	-	(685,000)	1,740,000	715,000
Special Assessment Bonds							
2003 Special Assessment Limited Tax Bonds							
Amount of Issue - \$2,330,000							
Maturity through 2017	2.00% - 4.00%	\$150,000 - \$200,000	2,330,000	-	(75,000)	2,255,000	175,000
Revenue Bonds							
1997 Water and Sewer Disposal System Revenue Bond							
Amount of Issue - \$5,225,000							
Maturing through 2012	4.65% - 5.15%	\$415,000 - \$505,000	3,980,000	-	(325,000)	3,655,000	420,000
1998 Water and Sewer Disposal System Revenue Bond							
Amount of Issue - \$10,000,000							
Maturing through 2019	4.25% - 5.00%	\$200,000 - \$1,000,000	9,700,000	-	(200,000)	9,500,000	200,000

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities (Continued)							
Building Authority Bonds							
1997 Ice Arena Recreation Facility Bond							
Amount of Issue - \$8,500,000							
Maturing through 2006	4.00%	\$200,000	\$ 7,550,000	\$ -	\$ (7,350,000)	\$ 200,000	\$ 200,000
2004 Ice Arena Recreation Facility							
Refunding Bonds							
Amount of Issue - \$7,630,000							
Maturing through 2024	2.50% - 4.65%	\$60,000 - \$560,000	-	7,630,000	-	7,630,000	60,000
Less deferred amount on refunding			-	(531,234)	26,562	(504,672)	
1999 Senior Complex Recreation Facility Bond							
Amount of Issue - \$15,300,000							
Maturing through 2016	5.10% - 7.50%	\$350,000 - \$600,000	14,800,000	-	(9,300,000)	5,500,000	350,000
2005 Senior Complex Recreation Facility							
Refunding Bonds							
Amount of Issue - \$9,920,000							
Maturing through 2025	3.00% - 4.75%	\$20,000 - \$1,100,000	-	9,920,000	-	9,920,000	105,000
Less deferred amount on refunding			-	(842,369)	-	(842,369)	-
Total business-type activities long-term liabilities			\$ 41,535,000	\$ 16,176,397	\$ (17,908,438)	\$ 39,802,959	\$ 2,225,000

Annual debt service requirements to maturity for the above (governmental) bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 6,059,000	\$ 2,741,714	\$ 8,800,714	\$ 2,225,000	\$ 1,786,427	\$ 4,011,427
2007	6,190,000	2,512,066	8,702,066	2,400,000	1,750,800	4,150,800
2008	7,025,000	2,261,863	9,286,863	2,515,000	1,634,605	4,149,605
2009	7,250,000	1,963,190	9,213,190	1,820,000	1,511,025	3,331,025
2010	7,500,000	1,628,614	9,128,614	1,905,000	1,424,168	3,329,168
2011-2015	25,700,000	3,838,100	29,538,100	10,645,000	5,750,789	16,395,789
2016-2020	5,780,000	344,413	6,124,413	11,800,000	3,099,184	14,899,184
2021-2025	-	-	-	6,740,000	999,023	7,739,023
2026-2029	-	-	-	1,100,000	23,650	1,123,650
Deferred amount on refundings	-	-	-	(1,347,041)	-	(1,347,041)
Total	\$ 65,504,000	\$ 15,289,960	\$ 80,793,960	\$ 39,802,959	\$ 17,979,671	\$ 57,782,630

Note 8 - Long-term Debt (Continued)

During the year, the City refunded \$7,150,000 of 1997 Building Authority Bonds with an average interest rate of 5.53 percent used to finance the construction of the Novi Ice Arena. These bonds were refunded through the issuance of \$7,630,000 of 2004 Building Authority Refunding Bonds with an average interest rate of 3.80 percent. The net proceeds of \$7,485,990 (after payment of \$150,433 in underwriter's fees and issuance costs and consideration of a premium of \$6,423) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net assets. The City realized an economic gain of \$235,603 as a result of the refunding.

The City also refunded \$9,000,000 of 1999 Building Authority Bonds with an average interest rate of 5.52 percent used to finance the construction of the Meadowbrook Commons senior housing complex. These bonds were refunded through the issuance of \$9,920,000 of 2005 Building Authority Refunding Bonds with an average interest rate of 3.94 percent. The net proceeds of \$9,842,369 (after payment of \$148,388 in underwriter's fees and issuance costs and consideration of a premium of \$70,757) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net assets. The City realized an economic gain of \$462,173 as a result of the refunding.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefit claims and is covered by the Municipal Insurance Alliance for property and casualty claims, and for vehicle and contractor equipment physical damage. The City participates in the Michigan Municipal League (MML) risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Risk Management (Continued)

The City was a member of the Michigan Municipal Risk Management Authority, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims through June 30, 1994. From July 1, 1994 through June 30, 2003 the City participated in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and workers' compensation. This risk pool operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. This includes estimated liabilities of the Michigan Municipal Risk Management Authority program through June 30, 1994, estimated liabilities of the Michigan Municipal League program from July 1, 1994 through June 30, 2003, and estimated deductible payments related to the Municipal Insurance Alliance for claims subsequent to July 1, 2003.

Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 522,300	\$ 592,180
Estimated claims incurred, including changes in estimates	(181,346)	293,694
Claim payments	(100,781)	(363,574)
Estimated liability - End of year	<u>\$ 240,173</u>	<u>\$ 522,300</u>

City of Novi, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Construction Code Fees

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004	\$ (35,068)
Current year building permit revenue	2,089,053
Related expenses:	
Direct costs	\$ 1,769,951
Estimated indirect costs	<u>219,292</u>
Total construction code expenses	<u>1,989,243</u>
Cumulative surplus at June 30, 2005	<u>\$ 64,742</u>

Note 11 - Designated Fund Balances

The fund balances of the following funds have been designated for the following purposes:

	General Fund	Municipal Street Fund	Other Nonmajor Governmental Funds
Subsequent years' budgeted expenditures	\$ 84,949	\$ 495,910	\$ 2,046,626
Building reserve	<u>-</u>	<u>-</u>	<u>100,000</u>
Total designated fund balances	<u>\$ 84,949</u>	<u>\$ 495,910</u>	<u>\$ 2,146,626</u>

Note 12 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires contributions of 2.44 percent to 6.44 percent from approximately 50 percent of the covered or eligible employees.

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$1,769,342 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over 30 years. The amortization period is open.

Note 12 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ 1,402,816	\$ 1,561,235	\$ 1,769,342
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	2002	2003	2004
Actuarial value of assets	\$ 27,004,202	\$ 29,711,414	\$ 32,513,951
Actuarial accrued liability (AAL) (entry age normal cost method)	\$ 37,047,372	\$ 40,290,596	\$ 47,410,735
Unfunded AAL (UAAL)	\$ 10,043,170	\$ 10,579,182	\$ 14,896,784
Funded ratio	73%	74%	69%
Covered payroll	\$ 13,200,553	\$ 14,299,462	\$ 15,561,451
UAAL as a percentage of covered payroll	76%	74%	96%

Note 13 - Joint Venture

The City participates in the Southwest Oakland Cable Commission with the cities of Farmington and Farmington Hills. The City appoints two members to the governing board of the Cable Commission, which then approves the annual budget. The Cable Commission receives 5 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information of the joint venture as of June 30, 2005 can be obtained from the administrative offices at 24021 Research Drive in Farmington Hills, Michigan.

In addition, the City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County. The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, Wixom, and the Charter Township of South Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income. The financial information of the joint venture as of June 30, 2005 can be obtained from the Authority's administrative offices at 20000 West 8 Mile Road in Southfield, Michigan.

Note 13 - Joint Venture (Continued)

For both joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Retiree Health Care Benefits Expendable Trust

The City provides health care benefits to most full-time employees upon retirement, in accordance with labor contracts. Currently, 42 retirees are eligible and 36 are receiving benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with contributions required by the participant for 20 percent of annual premiums. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for retiree health care benefits are recognized as the insurance premiums become due. For individuals retired before June 30, 1994, premiums are paid by the General Fund. During the year, this amounted to approximately \$67,000. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Pension and Other Employee Benefit Trust Fund. During the year, this amounted to approximately \$213,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

Required Supplemental Information

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<u>Revenue</u>				
Taxes				
Current property taxes	\$ 13,005,000	\$ 13,305,000	\$ 13,328,986	\$ 23,986
Trailer fees	10,000	10,000	9,742	(258)
Penalty and interest	175,000	175,000	330,708	155,708
Total taxes	13,190,000	13,490,000	13,669,436	179,436
Licenses, Permits, and Charges for Services	2,822,300	3,217,350	3,722,805	505,455
Intergovernmental Revenue				
State-shared revenue	3,812,384	3,768,384	3,756,453	(11,931)
Federal grants	19,530	81,780	72,596	(9,184)
Police training grant	14,000	26,000	21,749	(4,251)
Total intergovernmental revenue	3,845,914	3,876,164	3,850,798	(25,366)
Fines and Forfeitures	285,000	375,000	404,417	29,417
Interest Income	295,000	455,000	577,249	122,249
Other Revenue	501,100	481,100	576,627	95,527
Transfers In	3,745,000	3,745,000	3,750,543	5,543
Total revenue	24,684,314	25,639,614	26,551,875	912,261
<u>Expenditures</u>				
City Council				
Personal services	7,100	7,100	5,064	2,036
Other services and charges	1,100	1,100	78	1,022
Total city council	8,200	8,200	5,142	3,058
City Manager				
Personal services	544,768	605,398	583,296	22,102
Supplies	1,200	1,200	553	647
Other services and charges	2,800	4,400	4,543	(143)
Total city manager	548,768	610,998	588,392	22,606
Finance				
Personal services	602,998	649,408	623,862	25,546
Other services and charges	68,490	65,340	59,632	5,708
Total finance	671,488	714,748	683,494	31,254

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Information Technology				
Personal services	\$ 222,901	\$ 233,631	\$ 225,279	\$ 8,352
Supplies	41,100	41,100	24,165	16,935
Other services and charges	80,000	83,200	86,448	(3,248)
Total information technology	344,001	357,931	335,892	22,039
Assessing				
Personal services	548,114	554,744	530,187	24,557
Supplies	2,100	2,100	2,027	73
Other services and charges	125,400	125,400	96,181	29,219
Total assessing	675,614	682,244	628,395	53,849
City Attorney	319,650	507,150	460,265	46,885
City Clerk				
Personal services	491,581	537,601	494,566	43,035
Supplies	14,000	39,000	33,444	5,556
Other services and charges	22,480	16,480	17,656	(1,176)
Capital outlay	-	6,000	-	6,000
Total city clerk	528,061	599,081	545,666	53,415
Treasury				
Personal services	211,146	217,041	205,948	11,093
Supplies	17,085	18,085	17,627	458
Other services and charges	50,415	64,415	50,928	13,487
Total treasury	278,646	299,541	274,503	25,038
Building and Grounds				
Personal services	196,310	224,310	214,905	9,405
Supplies	8,700	8,700	7,316	1,384
Other services and charges	550,500	565,500	447,765	117,735
Debt service	34,400	34,400	34,400	-
Capital outlay	-	46,000	29,803	16,197
Total building and grounds	789,910	878,910	734,189	144,721
Community Relations				
Personal services	140,035	144,825	139,794	5,031
Supplies	4,450	4,450	3,673	777
Other services and charges	140,300	118,900	113,527	5,373
Capital outlay	-	23,400	23,856	(456)
Total community relations	284,785	291,575	280,850	10,725

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
General Administration				
Personal services	\$ 614,454	\$ 650,029	\$ 631,793	\$ 18,236
Supplies	89,330	97,330	81,102	16,228
Other services and charges	720,000	725,000	622,795	102,205
Total general administration	1,423,784	1,472,359	1,335,690	136,669
Police Department				
Personal services	8,625,126	8,876,286	8,666,808	209,478
Supplies	181,550	263,850	248,861	14,989
Other services and charges	730,872	803,512	790,404	13,108
Total police department	9,537,548	9,943,648	9,706,073	237,575
Fire Department				
Personal services	3,465,757	3,569,072	3,323,847	245,225
Supplies	101,600	102,900	109,076	(6,176)
Other services and charges	202,150	236,150	221,234	14,916
Capital outlay	-	533,500	86,108	447,392
Total fire department	3,769,507	4,441,622	3,740,265	701,357
Building Department				
Personal services	1,460,802	1,583,082	1,519,026	64,056
Supplies	31,000	38,900	35,665	3,235
Other services and charges	87,650	224,650	208,081	16,569
Capital outlay	-	8,180	7,179	1,001
Total building department	1,579,452	1,854,812	1,769,951	84,861
Neighborhood Services				
Personal services	403,701	405,961	395,387	10,574
Supplies	8,040	8,040	8,596	(556)
Other services and charges	17,195	22,195	21,976	219
Total neighborhood services	428,936	436,196	425,959	10,237
Department of Public Works				
Personal services	2,099,489	2,087,384	2,005,330	82,054
Supplies	112,800	127,800	120,078	7,722
Other services and charges	559,234	613,634	492,902	120,732
Capital outlay	-	187,500	76,554	110,946
Allocated to other operations	(1,719,566)	(1,719,566)	(2,029,167)	309,601
Total department of public works	1,051,957	1,296,752	665,697	631,055

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Engineering				
Personal services	\$ 440,050	\$ 494,980	\$ 486,651	\$ 8,329
Supplies	5,450	5,450	5,543	(93)
Other services and charges	9,700	14,925	12,873	2,052
Allocated to other operations	(141,780)	(141,780)	(130,656)	(11,124)
Total engineering	313,420	373,575	374,411	(836)
Planning Commission - Other services and charges	36,524	81,024	55,580	25,444
Planning				
Personal services	615,121	626,731	538,587	88,144
Supplies	11,800	11,800	5,067	6,733
Other services and charges	94,100	99,325	64,178	35,147
Total planning	721,021	737,856	607,832	130,024
Contingencies	392,700	-	-	-
Transfers Out	1,158,224	1,263,224	1,262,599	625
Total expenditures	24,862,196	26,851,446	24,480,845	2,370,601
Net Change in Fund Balance	(177,882)	(1,211,832)	2,071,030	3,282,862
Fund Balance - Beginning of year	5,133,307	5,133,307	5,133,307	-
Fund Balance - End of year	<u>\$ 4,955,425</u>	<u>\$ 3,921,475</u>	<u>\$ 7,204,337</u>	<u>\$ 3,282,862</u>

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) Municipal Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,195,000	\$ 2,195,000	\$ 2,217,569	\$ 22,569
Federal sources	-	-	77,877	77,877
Interest income	1,038,690	1,038,690	1,106,097	67,407
Special assessments	1,053,501	1,053,501	1,228,081	174,580
Other	64,000	64,000	86,278	22,278
Total revenue	4,351,191	4,351,191	4,715,902	364,711
Expenditures				
Administration	5,000	-	-	-
Construction	520,811	1,027,911	622,914	404,997
Street maintenance	212,000	389,000	381,047	7,953
Debt service	1,903,975	1,903,975	1,902,363	1,612
Transfers out	2,450,000	2,450,000	2,450,000	-
Total expenditures	5,091,786	5,770,886	5,356,324	414,562
Net Change in Fund Balance	(740,595)	(1,419,695)	(640,422)	779,273
Fund Balance - Beginning of year	4,304,399	4,304,399	4,304,399	-
Fund Balance - End of year	<u>\$ 3,563,804</u>	<u>\$ 2,884,704</u>	<u>\$ 3,663,977</u>	<u>\$ 779,273</u>

Other Supplemental Information

City of Novi, Michigan

		Special Revenue Funds			
		Major	Local		Parks, Recreation, and
		Street	Street	Police and Fire	Forestry
Assets					
Cash and investments		\$ 2,627,388	\$ 337,438	\$ 1,725,825	\$ 1,834,652
Due from other funds		3,841	-	-	-
Accounts receivable:					
Other governmental units		358,980	120,696	-	23,335
Taxes		-	-	103,147	27,858
Special assessments		760,000	-	-	-
Other		-	-	-	6,160
Restricted assets		1,119,910	270,312	-	-
Total assets		<u>\$ 4,870,119</u>	<u>\$ 728,446</u>	<u>\$ 1,828,972</u>	<u>\$ 1,892,005</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable		\$ 198,578	\$ 97,875	\$ -	\$ 211,185
Accrued and other liabilities		-	-	-	897,196
Due to other funds		-	3,841	-	-
Deferred revenue		760,000	-	-	170,599
Total liabilities		958,578	101,716	-	1,278,980
Fund Balances					
Reserved - Restricted assets		1,119,910	270,312	-	-
Unreserved:					
Designated		1,741,450	241,904	63,272	-
Undesignated		1,050,181	114,514	1,765,700	613,025
Total fund balances		3,911,541	626,730	1,828,972	613,025
Total liabilities and fund balances		<u>\$ 4,870,119</u>	<u>\$ 728,446</u>	<u>\$ 1,828,972</u>	<u>\$ 1,892,005</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Special Revenue Funds							
Drain Revenue	Drain Perpetual Maintenance	Special Assessment Revolving	Judgment Trust	Contributions and Donations	Federal Forfeiture Fund	Library	Walker Building Fund
\$ 4,055,371	\$ 4,960,630	\$ 2,021,398	\$ 55,704	\$ -	\$ 1,339,066	\$ 652,522	\$ -
-	-	-	-	-	-	-	-
160,202	-	-	-	-	-	-	-
40,559	-	-	-	-	-	55,746	-
10,295	-	-	-	-	-	-	-
-	-	-	463	-	-	-	-
1,122,571	-	-	-	142,468	-	-	1,020,579
\$ 5,388,998	\$ 4,960,630	\$ 2,021,398	\$ 56,167	\$ 142,468	\$ 1,339,066	\$ 708,268	\$ 1,020,579
\$ 407,638	\$ -	\$ -	\$ 28,407	\$ 27,903	\$ -	\$ 119,573	\$ 1,147
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
10,295	-	-	-	-	-	-	-
417,933	-	-	28,407	27,903	-	119,573	1,147
1,122,571	-	-	-	114,565	-	-	1,019,432
-	-	-	-	-	-	100,000	-
3,848,494	4,960,630	2,021,398	27,760	-	1,339,066	488,695	-
4,971,065	4,960,630	2,021,398	27,760	114,565	1,339,066	588,695	1,019,432
\$ 5,388,998	\$ 4,960,630	\$ 2,021,398	\$ 56,167	\$ 142,468	\$ 1,339,066	\$ 708,268	\$ 1,020,579

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City of Novi, Michigan

Debt Service Funds				
	Special Assessments	1997 Voted Street	2000 Voted Street	2000 Limited Tax Debt Fund
Assets				
Cash and investments	\$ 603,992	\$ -	\$ 23,119	\$ -
Due from other funds	-	-	-	-
Accounts receivable:				
Other governmental units	-	-	-	-
Taxes	-	-	20,442	-
Special assessments	11,412	-	-	-
Other	-	-	-	-
Restricted assets	-	-	-	-
Total assets	<u>\$ 615,404</u>	<u>\$ -</u>	<u>\$ 43,561</u>	<u>\$ -</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	11,413	-	-	-
Total liabilities	11,413	-	-	-
Fund Balances				
Reserved - Restricted assets	-	-	-	-
Unreserved:				
Designated	-	-	-	-
Undesignated	603,991	-	43,561	-
Total fund balances	603,991	-	43,561	-
Total liabilities and fund balances	<u>\$ 615,404</u>	<u>\$ -</u>	<u>\$ 43,561</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2005**

Debt Service Funds					
2002 Michigan Transportation Fund Refunding Debt	1997 Fire Debt	1999 Police Debt Fund	2003 Refunding Debt Fund	2002 Street and Refunding Debt	1993 Refunding Debt Fund
\$ -	\$ -	\$ 110,909	\$ 88,838	\$ 37,121	\$ 52,919
-	-	-	-	-	-
-	-	-	-	-	-
-	-	6,989	1,916	44,685	32,030
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,898</u>	<u>\$ 90,754</u>	<u>\$ 81,806</u>	<u>\$ 84,949</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	117,898	90,754	81,806	84,949
-	-	117,898	90,754	81,806	84,949
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,898</u>	<u>\$ 90,754</u>	<u>\$ 81,806</u>	<u>\$ 84,949</u>

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City of Novi, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds (Continued) June 30, 2005

	Capital Projects Funds				
	Capital Improvement	2000 Voted Street Construction	1997 Fire Capital Improvement	1999 Police Building Construction	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ -	\$ 4,329,966	\$ 18,113	\$ 484,313	\$ 25,359,284
Due from other funds	-	-	-	-	3,841
Accounts receivable:					
Other governmental units	-	-	-	-	663,213
Taxes	-	-	-	-	333,372
Special assessments	-	-	-	-	781,707
Other	-	-	61,297	-	67,920
Restricted assets	-	-	-	-	3,675,840
Total assets	<u>\$ -</u>	<u>\$ 4,329,966</u>	<u>\$ 79,410</u>	<u>\$ 484,313</u>	<u>\$ 30,885,177</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 397,820	\$ 18,112	\$ -	\$ 1,508,238
Accrued and other liabilities	-	-	-	-	897,196
Due to other funds	-	-	21,260	-	25,101
Deferred revenue	-	-	-	-	952,307
Total liabilities	-	397,820	39,372	-	3,382,842
Fund Balances					
Reserved - Restricted assets	-	-	-	-	3,646,790
Unreserved:					
Designated	-	-	-	-	2,146,626
Undesignated	-	3,932,146	40,038	484,313	21,708,919
Total fund balances	-	3,932,146	40,038	484,313	27,502,335
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 4,329,966</u>	<u>\$ 79,410</u>	<u>\$ 484,313</u>	<u>\$ 30,885,177</u>

City of Novi, Michigan

	Special Revenue Funds			
	Major Street	Local Street	Police and Fire	Parks, Recreation, and Forestry
Revenue				
Property taxes	\$ -	\$ -	\$ 4,097,637	\$ 1,106,600
Federal grants	-	-	-	129,204
State sources	2,210,326	746,110	-	44,713
Special assessments	126,667	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	110,339	14,238	66,107	17,796
Recreational programs	-	-	-	847,606
Donations	-	-	-	-
Other revenue	13,796	624	-	138,864
Total revenue	2,461,128	760,972	4,163,744	2,284,783
Expenditures				
Administration	500	500	-	-
Construction	1,720,943	1,259,874	-	-
Street maintenance	1,282,913	1,060,625	-	-
Drain maintenance	-	-	-	-
Recreational programs	-	-	-	1,802,210
Forestry and park maintenance	-	-	-	1,009,631
Library programs	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	136,732
Debt service	207,605	-	-	-
Total expenditures	3,211,961	2,320,999	-	2,948,573
Excess of Revenue Over (Under)				
Expenditures	(750,833)	(1,560,027)	4,163,744	(663,790)
Other Financing Sources (Uses)				
Transfers in	2,000,000	992,809	-	845,374
Transfers out	(663,519)	-	(3,745,000)	-
Total other financing sources (uses)	1,336,481	992,809	(3,745,000)	845,374
Excess of Revenue and Other Financing Sources Over (Under)				
Expenditures and Other Uses	585,648	(567,218)	418,744	181,584
Fund Balances - Beginning of year	3,325,893	1,193,948	1,410,228	431,441
Fund Balances - End of year	\$ 3,911,541	\$ 626,730	\$ 1,828,972	\$ 613,025

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Special Revenue Funds							
Drain Revenue	Drain Perpetual Maintenance	Special Assessment Revolving	Judgment Trust	Contributions and Donations	Federal Forfeiture Fund	Library	Walker Building Fund
\$ 1,462,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,222,731	\$ -
411,330	-	-	-	-	-	-	-
-	-	-	-	-	-	41,470	-
3,432	-	-	-	-	-	-	-
-	-	-	-	-	1,332,410	104,344	-
108,271	189,995	53,961	1,257	2,523	6,656	27,805	26,133
-	-	-	-	-	-	-	-
-	-	-	-	510	-	-	13,272
-	163,793	-	-	-	-	35,431	-
1,985,085	353,788	53,961	1,257	3,033	1,339,066	2,431,781	39,405
3,666	-	-	-	-	-	-	-
1,364,217	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
429,265	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,222,296	-
-	-	500	146,472	510	-	-	23,391
-	-	-	-	-	-	19,317	-
-	-	-	-	-	-	-	-
1,797,148	-	500	146,472	510	-	2,241,613	23,391
187,937	353,788	53,461	(145,215)	2,523	1,339,066	190,168	16,014
-	-	-	100,000	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	100,000	-	-	-	-
187,937	353,788	53,461	(45,215)	2,523	1,339,066	190,168	16,014
4,783,128	4,606,842	1,967,937	72,975	112,042	-	398,527	1,003,418
\$ 4,971,065	\$ 4,960,630	\$ 2,021,398	\$ 27,760	\$ 114,565	\$ 1,339,066	\$ 588,695	\$ 1,019,432

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City of Novi, Michigan

	Debt Service Funds			
	Special Assessments	1997 Voted Street	2000 Voted Street	2000 Limited Tax Debt Fund
Revenue				
Property taxes	\$ -	\$ 989,533	\$ 893,419	\$ -
Federal grants	-	-	-	-
State sources	-	-	-	-
Special assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	5,915	1,812	2,620	-
Recreational programs	-	-	-	-
Donations	-	-	-	-
Other revenue	-	-	-	-
Total revenue	5,915	991,345	896,039	-
Expenditures				
Administration	-	-	-	-
Construction	-	-	-	-
Street maintenance	-	-	-	-
Drain maintenance	-	-	-	-
Recreational programs	-	-	-	-
Forestry and park maintenance	-	-	-	-
Library programs	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	1,023,450	887,925	229,675
Total expenditures	-	1,023,450	887,925	229,675
Excess of Revenue Over (Under)				
Expenditures	5,915	(32,105)	8,114	(229,675)
Other Financing Sources (Uses)				
Transfers in	-	-	-	229,675
Transfers out	-	(106,305)	-	-
Total other financing sources (uses)	-	(106,305)	-	229,675
Excess of Revenue and Other Financing Sources Over (Under)				
Expenditures and Other Uses	5,915	(138,410)	8,114	-
Fund Balances - Beginning of year	598,076	138,410	35,447	-
Fund Balances - End of year	\$ 603,991	\$ -	\$ 43,561	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Debt Service Funds					
2002 Michigan Transportation Fund Refunding Debt	1997 Fire Debt	1999 Police Debt Fund	2003 Refunding Debt Fund	2002 Street and Refunding Debt	1993 Refunding Debt Fund
\$ -	\$ 148,269	\$ -	\$ 246,082	\$ 2,191,215	\$ 1,320,799
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	95	3,142	1,373	6,425	2,803
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
120,710	154,853	294,315	293,738	2,187,631	1,320,835
120,710	154,853	294,315	293,738	2,187,631	1,320,835
(120,710)	(6,489)	(291,173)	(46,283)	10,009	2,767
120,710	-	-	106,305	2,406	-
-	(2,406)	-	-	-	-
120,710	(2,406)	-	106,305	2,406	-
-	(8,895)	(291,173)	60,022	12,415	2,767
-	8,895	409,071	30,732	69,391	82,182
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,898</u>	<u>\$ 90,754</u>	<u>\$ 81,806</u>	<u>\$ 84,949</u>

(Continued on next page)

City of Novi, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

	Capital Projects Funds				
	Capital Improvement	2000 Voted Street Construction	1997 Fire Capital Improvement	1999 Police Building Construction	Total Nonmajor Governmental Funds
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 14,678,337
Federal grants	-	-	-	-	540,534
State sources	-	-	-	-	3,042,619
Special assessments	-	-	-	-	130,099
Fines and forfeitures	-	-	-	-	1,436,754
Investment income	674	107,606	-	10,483	768,029
Recreation programs	-	-	-	-	847,606
Donations	-	-	-	-	13,782
Other revenue	-	-	-	-	352,508
Total revenue	674	107,606	-	10,483	21,810,268
Expenditures					
Administration	-	2,400	-	-	7,066
Construction	-	3,298,634	-	-	7,643,668
Street maintenance	-	-	-	-	2,343,538
Drain maintenance	-	-	-	-	429,265
Recreational programs	-	-	-	-	1,802,210
Forestry and park maintenance	-	-	-	-	1,009,631
Library programs	-	-	-	-	2,222,296
Other	640	-	5,673	-	177,186
Capital outlay	82,041	-	-	-	238,090
Debt service	-	-	-	-	6,720,737
Total expenditures	82,681	3,301,034	5,673	-	22,593,687
Excess of Revenue Over (Under)					
Expenditures	(82,007)	(3,193,428)	(5,673)	10,483	(783,419)
Other Financing Sources (Uses)					
Transfers in	87,550	-	-	-	4,484,829
Transfers out	(5,543)	-	-	-	(4,522,773)
Total other financing sources (uses)	82,007	-	-	-	(37,944)
Excess of Revenue and Other Financing Sources Over (Under)					
Expenditures and Other Uses	-	(3,193,428)	(5,673)	10,483	(821,363)
Fund Balances - Beginning of year	-	7,125,574	45,711	473,830	28,323,698
Fund Balances - End of year	\$ -	\$ 3,932,146	\$ 40,038	\$ 484,313	\$ 27,502,335

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2005

Special Revenue - Major Street

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
State sources	\$ 2,106,654	\$ 2,106,654	\$ 2,210,326	\$ 103,672
Special assessments	127,000	127,000	126,667	(333)
Investment income	86,500	92,500	110,339	17,839
Transfers in	2,000,000	2,000,000	2,000,000	-
Other	-	14,000	13,796	(204)
Total revenue	4,320,154	4,340,154	4,461,128	120,974
Expenditures				
Administration	-	-	500	(500)
Construction	3,484,052	4,588,052	1,720,943	2,867,109
Street maintenance	1,152,500	1,202,500	1,282,913	(80,413)
Transfers out	647,116	647,116	663,519	(16,403)
Debt service	208,113	208,113	207,605	508
Total expenditures	5,491,781	6,645,781	3,875,480	2,770,301
Net Change in Fund Balance	(1,171,627)	(2,305,627)	585,648	2,891,275
Fund Balance - Beginning of year	3,325,893	3,325,893	3,325,893	-
Fund Balance - End of year	<u>\$ 2,154,266</u>	<u>\$ 1,020,266</u>	<u>\$ 3,911,541</u>	<u>\$ 2,891,275</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Local Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
State sources	\$ 720,342	\$ 720,342	\$ 746,110	\$ 25,768
Investment income	10,000	10,000	14,238	4,238
Transfers in	976,664	976,664	992,809	16,145
Other	-	-	624	624
Total revenue	1,707,006	1,707,006	1,753,781	46,775
Expenditures				
Administration	-	-	500	(500)
Construction	1,265,000	1,265,000	1,259,874	5,126
Street maintenance	1,036,200	1,076,200	1,060,625	15,575
Total expenditures	2,301,200	2,341,200	2,320,999	20,201
Net Change in Fund Balance	(594,194)	(634,194)	(567,218)	66,976
Fund Balance - Beginning of year	1,193,948	1,193,948	1,193,948	-
Fund Balance - End of year	\$ 599,754	\$ 559,754	\$ 626,730	\$ 66,976

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Police and Fire

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 4,078,000	\$ 4,078,000	\$ 4,097,637	\$ 19,637
Investment income	10,000	10,000	66,107	56,107
Total revenue	4,088,000	4,088,000	4,163,744	75,744
Expenditures - Transfers out	4,095,000	4,043,000	3,745,000	298,000
Net Change in Fund Balance	(7,000)	45,000	418,744	373,744
Fund Balance - Beginning of year	1,410,228	1,410,228	1,410,228	-
Fund Balance - End of year	<u>\$ 1,403,228</u>	<u>\$ 1,455,228</u>	<u>\$ 1,828,972</u>	<u>\$ 373,744</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Parks, Recreation, and Forestry

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Property taxes	\$ 1,092,000	\$ 1,092,000	\$ 1,106,600	\$ 14,600
Federal grants	137,432	137,432	129,204	(8,228)
State sources	-	34,500	44,713	10,213
Investment income	3,900	11,400	17,796	6,396
Recreation programs	956,800	770,500	847,606	77,106
Transfers in	740,374	845,374	845,374	-
Other	54,150	241,250	138,864	(102,386)
Total revenue	2,984,656	3,132,456	3,130,157	(2,299)
Expenditures				
Capital outlay	-	277,000	136,732	140,268
Recreational programs	1,960,184	1,814,114	1,802,210	11,904
Forestry and park maintenance	936,149	1,154,354	1,009,631	144,723
Total expenditures	2,896,333	3,245,468	2,948,573	296,895
Net Change in Fund Balance	88,323	(113,012)	181,584	294,596
Fund Balance - Beginning of year	431,441	431,441	431,441	-
Fund Balance - End of year	<u>\$ 519,764</u>	<u>\$ 318,429</u>	<u>\$ 613,025</u>	<u>\$ 294,596</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Drain Revenue

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 1,443,000	\$ 1,443,000	\$ 1,462,052	\$ 19,052
Federal grants	-	600,700	411,330	(189,370)
Special assessments	2,745	2,745	3,432	687
Investment income	31,998	65,998	108,271	42,273
Total revenue	1,477,743	2,112,443	1,985,085	(127,358)
Expenditures				
Administration	1,000	5,500	3,666	1,834
Construction	2,100,405	4,095,235	1,364,217	2,731,018
Street maintenance	596,375	596,375	429,265	167,110
Total expenditures	2,697,780	4,697,110	1,797,148	2,899,962
Net Change in Fund Balance	(1,220,037)	(2,584,667)	187,937	2,772,604
Fund Balance - Beginning of year	4,783,128	4,783,128	4,783,128	-
Fund Balance - End of year	<u>\$ 3,563,091</u>	<u>\$ 2,198,461</u>	<u>\$ 4,971,065</u>	<u>\$ 2,772,604</u>

Special Revenue - Perpetual Maintenance

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Investment income	\$ 95,500	\$ 165,500	\$ 189,995	\$ 24,495
Other	-	-	163,793	163,793
Total revenue	95,500	165,500	353,788	188,288
Fund Balance - Beginning of year	4,606,842	4,606,842	4,606,842	-
Fund Balance - End of year	<u>\$ 4,702,342</u>	<u>\$ 4,772,342</u>	<u>\$ 4,960,630</u>	<u>\$ 188,288</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Special Assessment Revolving

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue - Investment income	\$ -	\$ -	\$ 53,961	\$ 53,961
Expenditures - Other	600	600	500	100
Net Change in Fund Balance	(600)	(600)	53,461	53,861
Fund Balance - Beginning of year	1,967,937	1,967,937	1,967,937	-
Fund Balance - End of year	<u>\$ 1,967,337</u>	<u>\$ 1,967,337</u>	<u>\$ 2,021,398</u>	<u>\$ 53,861</u>

Special Revenue - Judgment Trust

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Investment income	\$ 500	\$ 500	\$ 1,257	\$ 757
Transfers in	100,000	100,000	100,000	-
Total revenue	100,500	100,500	101,257	757
Expenditures - Other	100,000	173,475	146,472	27,003
Net Change in Fund Balance	500	(72,975)	(45,215)	27,760
Fund Balance - Beginning of year	72,975	72,975	72,975	-
Fund Balance - End of year	<u>\$ 73,475</u>	<u>\$ -</u>	<u>\$ 27,760</u>	<u>\$ 27,760</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Contributions and Donations

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Investment income	\$ -	\$ -	\$ 2,523	\$ 2,523
Donations	-	-	510	510
Total revenue	-	-	3,033	3,033
Expenditures - Other	-	-	510	(510)
Net Change in Fund Balance	-	-	2,523	2,523
Fund Balance - Beginning of year	112,042	112,042	112,042	-
Fund Balance - End of year	<u>\$ 112,042</u>	<u>\$ 112,042</u>	<u>\$ 114,565</u>	<u>\$ 2,523</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Library

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 2,202,800	\$ 2,202,800	\$ 2,222,731	\$ 19,931
Federal grants	-	-	-	-
State sources	34,200	34,200	41,470	7,270
Fines and forfeitures	98,000	98,000	104,344	6,344
Investment income	9,600	9,600	27,805	18,205
Other	35,300	35,300	35,431	131
Total revenue	2,379,900	2,379,900	2,431,781	51,881
Expenditures				
Library programs	2,224,130	2,346,737	2,222,296	124,441
Capital outlay	143,535	67,500	19,317	48,183
Total expenditures	2,367,665	2,414,237	2,241,613	172,624
Net Change in Fund Balance	12,235	(34,337)	190,168	224,505
Fund Balance - Beginning of year	398,527	398,527	398,527	-
Fund Balance - End of year	<u>\$ 410,762</u>	<u>\$ 364,190</u>	<u>\$ 588,695</u>	<u>\$ 224,505</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue - Walker Building Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Investment income	\$ -	\$ 15,000	\$ 26,133	\$ 11,133
Donations	-	7,000	13,272	6,272
Total revenue	-	22,000	39,405	17,405
Expenditures	-	22,000	23,391	(1,391)
Net Change in Fund Balance	-	-	16,014	16,014
Fund Balance - Beginning of year	1,003,418	1,003,418	1,003,418	-
Fund Balance - End of year	<u>\$ 1,003,418</u>	<u>\$ 1,003,418</u>	<u>\$ 1,019,432</u>	<u>\$ 16,014</u>

City of Novi, Michigan

Other Supplemental Information Agency Fund Statement of Changes in Assets and Liabilities June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>Agency Fund</u>				
Assets - Cash and cash equivalents	<u>\$ 11,182,799</u>	<u>\$ 126,534,633</u>	<u>\$ (124,122,719)</u>	<u>\$ 13,594,713</u>
Liabilities				
Due to other funds	\$ -	\$ 3,701,038	\$ (3,701,038)	\$ -
Due to builders and developers	11,114,966	14,117,321	(11,770,331)	13,461,956
Due to schools and other governmental units	<u>67,833</u>	<u>120,428,466</u>	<u>(120,363,542)</u>	<u>132,757</u>
Total liabilities	<u>\$ 11,182,799</u>	<u>\$ 138,246,825</u>	<u>\$ (135,834,911)</u>	<u>\$ 13,594,713</u>

City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of General Fixed Assets by Source June 30, 2005

Governmental Funds Capital Assets

Land	\$ 23,491,551
Infrastructure	123,966,896
Buildings	23,554,713
Machinery and equipment	<u>12,677,048</u>

Total general fixed assets	<u><u>\$ 183,690,208</u></u>
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Investment in General Fixed Assets

Federal revenue sharing	\$ 537,789
General Fund	19,725,195
Special Revenue Funds	85,859,379
Capital Projects Funds	<u>77,567,845</u>

Total investment in general fixed assets	<u><u>\$ 183,690,208</u></u>
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City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of General Fixed Assets by Function and Activity June 30, 2005

Function	Land	Infrastructure	Buildings	Machinery and Equipment	Total
General government	\$ 1,232,323	\$ -	\$ 3,331,021	\$ 1,316,181	\$ 5,879,525
Public safety - Police and fire	722,221	-	11,005,827	3,951,016	15,679,064
Public works	12,980,389	123,966,896	3,597,787	1,834,270	142,379,342
Recreation and culture	8,556,618	-	5,620,078	5,575,581	19,752,277
Total	<u>\$ 23,491,551</u>	<u>\$ 123,966,896</u>	<u>\$ 23,554,713</u>	<u>\$ 12,677,048</u>	<u>\$ 183,690,208</u>

City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of Changes in General Fixed Assets by Function and Activity June 30, 2005

Function	General Fixed Assets July 1, 2004	Additions	Deletions	General Fixed Assets June 30, 2005
General government	\$ 5,825,874	\$ 53,651	\$ -	\$ 5,879,525
Public safety - Police and fire	15,426,176	319,345	66,457	15,679,064
Public works	134,207,420	8,266,582	94,660	142,379,342
Recreation and culture	19,390,344	635,702	273,769	19,752,277
Total	<u>\$ 174,849,814</u>	<u>\$ 9,275,280</u>	<u>\$ 434,886</u>	<u>\$ 183,690,208</u>

Statistical Section

City of Novi, Michigan

Fiscal Year Ended June 30	Property Taxes	Licenses, Permits, and Charges for Services	Federal Grants	State Sources	Special Assessments
1996	\$ 14,763,820	\$ 1,757,040	\$ 312,059	\$ 4,356,804	\$ 1,197,184
1997	16,047,885	1,999,357	577,535	4,959,641	857,660
1998	18,165,370	2,007,549	715,828	6,102,520	1,078,981
1999	19,539,386	1,938,503	697,584	5,717,719	653,367
2000	20,500,719	2,249,562	477,059	6,461,107	341,631
2001	22,119,501	2,472,503	460,404	6,622,204	668,661
2002	24,295,219	2,394,190	820,901	7,104,544	1,109,137
2003	26,579,364	2,710,259	554,498	7,012,000	1,096,950
2004	28,321,001	3,067,750	300,066	6,859,367	1,137,287
2005	30,565,158	3,722,805	2,023,417	6,820,821	1,358,180

**General Government Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Fines and Forfeitures	Interest Income	Recreation Programs	Other	Total
\$ 275,160	\$ 1,829,733	\$ 594,197	\$ 1,034,972	\$ 26,120,969
336,128	1,942,496	698,880	933,798	28,353,380
328,868	1,883,393	691,244	938,311	31,912,064
295,938	2,009,949	683,289	793,229	32,328,964
355,851	1,760,716	696,555	1,949,344	34,792,544
350,737	3,117,031	676,415	708,108	37,195,564
359,760	2,596,888	758,648	1,639,060	41,078,347
384,847	2,418,398	897,234	2,070,395	43,723,945
469,068	1,929,003	771,552	1,976,734	44,831,828
508,761	2,332,796	847,606	1,029,195	49,208,739

City of Novi, Michigan

Fiscal Year Ended June 30	General Government	Police and Fire	Planning and Building	Street Maintenance	Recreational Programs
1996	\$ 3,598,380	\$ 7,628,648	\$ 1,314,833	\$ 1,204,969	\$ 1,286,444
1997	4,026,038	8,666,523	1,521,630	1,251,455	1,504,414
1998	4,535,814	8,829,481	1,503,742	1,392,594	1,609,127
1999	4,889,066	8,994,301	1,747,940	1,572,159	1,690,835
2000	5,141,271	9,368,829	1,614,238	1,645,265	1,777,934
2001	4,990,341	10,542,044	1,599,781	2,141,759	2,013,024
2002	5,679,800	11,036,958	2,062,633	2,228,811	2,121,361
2003	5,615,550	11,670,065	2,188,301	2,716,638	2,391,510
2004	6,186,515	12,473,512	2,239,138	2,589,536	2,595,979
2005	6,217,155	13,446,338	2,433,363	3,153,850	2,811,841

**General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Library	Capital Outlay	Debt Service	Other	Total
\$ 1,201,175	\$ 5,851,612	\$ 4,577,463	\$ 834,255	\$ 27,497,779
1,363,545	6,034,282	5,798,474	989,644	31,156,005
1,485,746	3,890,899	6,049,166	1,060,819	30,357,388
1,589,180	3,622,941	7,541,528	441,111	32,089,061
1,696,761	3,648,999	6,085,741	958,565	31,937,603
1,774,198	9,424,047	6,848,849	763,238	40,097,281
1,879,807	10,669,922	7,150,369	1,643,920	44,473,581
2,063,764	9,202,175	7,347,210	3,978,773	47,173,986
2,167,782	4,842,780	8,399,023	1,773,259	43,267,524
2,222,296	5,123,997	8,657,500	1,262,529	45,328,869

City of Novi, Michigan

General Fund Balance Compared to Annual Expenditures Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Unreserved Fund Balance</u>	<u>Annual Expenditures</u>	<u>Unreserved Fund Balance as a Percentage of Expenditures</u>
1996	\$ 2,733,119	\$ 13,333,557	20.50
1997	3,284,615	15,174,831	21.65
1998	3,748,548	16,024,538	23.39
1999	4,167,348	19,750,148	21.10
2000	2,581,745	20,800,541	12.41
2001	4,337,737	18,942,254	22.90
2002	4,651,976	21,405,614	21.73
2003	5,288,136	22,142,906	23.88
2004	5,133,307	23,941,919	21.44
2005	7,139,595	24,480,845	29.16

City of Novi, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy	Current Collections	Percent of Levy Collected	Delinquent Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1996	\$ 14,664,188	\$ 14,113,485	96%	\$ 519,006	\$ 14,632,491	99.78%
1997	16,146,708	15,292,294	95%	739,900	16,032,194	99.29%
1998	18,169,203	17,444,048	96%	608,640	18,052,688	99.36%
1999	19,333,400	18,845,437	97%	433,275	19,278,712	99.72%
2000	20,464,295	19,851,494	97%	519,156	20,370,650	99.54%
2001	22,009,796	21,436,690	97%	458,097	21,894,787	99.48%
2002	24,039,024	23,477,124	98%	427,871	23,904,995	99.44%
2003	26,462,386	25,442,497	96%	867,058	26,309,555	99.42%
2004	28,320,219	27,425,798	97%	816,969	28,242,767	99.73%
2005	30,885,486	29,479,285	95%	1,294,812	30,774,097	99.64%

City of Novi, Michigan

Computation of Legal Debt Margin Year Ended June 30, 2005

Debt Limit - 2004 State Equalized Valuation		\$ 3,407,206,840
Total valuation		<u><u>\$ 3,407,206,840</u></u>
Debt limit (10 percent of State Equalized Valuation)		\$ 340,720,684
Debt Applicable to Debt Limit		
Gross direct debt	\$ 106,654,000	
Less:		
Special assessment bonds	17,595,000	
Michigan Transportation Fund bonds	1,745,000	
Revenue bonds	<u>13,155,000</u>	
Total amount of debt applicable to limit		<u>74,159,000</u>
Legal Debt Margin		<u><u>\$ 266,561,684</u></u>

City of Novi, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Debt Service Requirements			Total General Expenditures	Ratio of Principal to General Expenditures (Percent)
	Principal	Interest	Total		
1995	\$ 3,892,828	\$ 3,845,000	\$ 7,737,828	\$ 22,631,460	17.20
1996	3,855,225	3,244,100	7,099,325	27,497,779	14.02
1997	4,186,229	3,164,500	7,350,729	31,156,005	13.44
1998	4,886,005	4,069,300	8,955,305	30,357,388	16.09
1999 (I)	4,666,533	2,755,186	7,421,719	32,089,061	23.13
2000 (I)	3,321,305	2,620,544	5,941,849	31,937,603	18.60
2001 (I)	3,748,592	2,967,415	6,716,007	40,097,281	16.73
2002 (I)	3,488,000	3,710,798	7,198,798	44,473,581	16.19
2003 (I)	3,155,999	2,454,397	5,610,396	47,173,986	11.89
2004 (I)	3,639,835	2,704,101	6,343,936	43,267,524	14.66
2005 (I)	4,542,000	2,207,856	6,749,856	45,328,869	14.89

(I) General obligation bonds reported in the enterprise funds and special assessment debt with government commitment have been excluded.

City of Novi, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years

Fiscal Year Ended June 30	Real Taxable Valuation	Personal Taxable Valuation	Total Valuation	Percent of True Value (1)
1996	\$ 1,327,835,950	\$ 122,690,750	\$ 1,450,526,700	50
1997	1,410,589,900	128,281,450	1,538,871,350	50
1998	1,508,542,210	137,200,350	1,645,742,560	50
1999	1,645,832,235	151,348,400	1,797,180,635	50
2000	1,773,657,340	166,509,250	1,940,166,590	50
2001	1,924,979,920	170,023,300	2,095,003,220	50
2002	2,105,598,380	174,797,790	2,280,396,170	50
2003	2,322,103,870	188,177,870	2,510,281,740	50
2004	2,473,254,790	205,961,210	2,679,216,000	50
2005	2,694,408,870	206,139,664	2,900,548,534	50

(1) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of appraised or estimated value.

City of Novi, Michigan

Property Tax Levies Last Ten Fiscal Years

Fiscal Year Ended June 30	State Education	School Tax (1)	City Tax	County Tax	Community Colleges (2)	Total
1996	\$ 8,654,486	\$ 26,329,291	\$ 14,664,188	\$ 7,150,083	\$ 2,433,819	\$ 59,231,867
1997	9,233,228	27,569,930	16,009,494	7,460,448	2,599,900	62,873,000
1998	9,874,455	30,079,461	17,985,004	7,937,794	2,782,731	68,659,445
1999	10,783,084	33,061,850	19,333,350	8,368,392	3,031,778	74,578,454
2000	11,640,999	34,007,696	20,464,295	9,026,043	3,244,448	78,383,481
2001	12,527,394	40,292,210	22,009,796	9,709,823	3,454,344	87,993,567
2002	13,682,377	45,441,051	24,039,024	10,589,704	3,739,441	97,491,597
2003	15,061,690	49,737,503	26,462,386	11,678,583	4,134,294	107,074,456
2004	13,396,080	52,588,770	28,321,001	12,457,551	4,386,322	111,149,724
2005	17,403,291	58,309,826	30,576,421	13,480,589	4,720,685	124,490,812

(1) Includes the Novi, Northville, South Lyon, and Walled Lake School Districts. Beginning with fiscal year ended June 30, 2001, also includes Oakland and Wayne County Intermediate Schools.

(2) Represents taxes levied for Oakland Community College and Schoolcraft College.

City of Novi, Michigan

Fiscal Year Ended June 30	City of Novi							
	General Fund	Municipal Street	Police and Fire	Parks and Recreation	Drain Revenue	Library	Debt Service	Total
1996	3.8715	.6971	1.5097	.3671	.6945	.8160	2.2103	10.1662
1997	4.1215	.6971	1.5097	.4080	.6945	.8160	2.1566	10.4034
1998	4.1215	.6945	1.5084	.4077	.6945	.8153	2.6863	10.9282
1999	4.1215	.6945	1.5032	.4063	.6945	.8125	2.5251	10.7576
2000	4.1215	0.6815	1.478	0.3995	0.6005	0.7989	2.4678	10.5477
2001	4.1215	0.6815	1.4567	0.3937	0.6005	0.7874	2.5003	10.5416
2002	4.4485	0.6815	1.4443	0.3902	0.6005	0.7806	2.196	10.5416
2003	4.4551	0.7791	1.4416	0.3894	0.6005	0.7791	2.0968	10.5416
2004	4.4985	0.7776	1.4388	0.3886	0.6005	0.7776	2.0600	10.5416
2005	4.6422	0.7719	1.4282	0.3857	0.5105	0.7719	2.0312	10.5416

**Property Tax Rates - Direct and Overlapping Government
(Per \$1,000 of Assessed Value)
Last Ten Fiscal Years**

Overlapping Government							
Novi Schools		South Lyon Schools		Walled Lake Schools		Northville Schools	
Homestead	Nonhomestead	Homestead	Nonhomestead	Homestead	Nonhomestead	Homestead	Nonhomestead
11.2900	23.8000	5.8800	23.8800	8.7816	22.6500	4.3000	22.3000
11.2900	23.9000	6.2500	24.2500	9.4772	23.6500	4.2000	22.2000
11.1783	23.7000	11.7283	24.2500	8.4399	23.1000	6.5050	24.5050
11.1213	23.8950	8.1500	26.0024	8.1074	22.8000	6.0000	24.0000
10.6785	23.6208	8.0000	25.8524	7.852	22.8000	5.5000	23.5000
10.3582	23.2663	8.0000	25.8524	8.0982	23.1000	5.0000	23.000
12.1574	25.6000	8.0000	26.0000	7.9538	23.1000	5.0500	23.0500
11.6782	25.3453	8.0000	26.0000	7.4728	22.9884	4.7800	22.7800
11.3460	25.3049	8.0000	26.0000	7.5248	23.1000	4.7500	22.7500
12.0413	26.2032	8.5000	26.5000	7.0548	22.7900	5.2200	23.2200

City of Novi, Michigan

Property Tax Rates - Direct and Overlapping Government (Per \$1,000 of Assessed Value) Last Ten Fiscal Years (Continued)

Fiscal Year Ended June 30	Oakland County	Oakland Community College	Schoolcraft Community College	Oakland Intermediate Schools	Wayne Intermediate Schools	State Education
1996	4.9480	1.6522	1.8521	2.1294	1.9971	6.0000
1997	4.8480	1.6522	1.8521	2.1294	1.9971	6.0000
1998	4.8180	1.6522	1.8521	2.1294	1.9971	6.0000
1999	4.6564	1.6456	1.8521	2.1208	1.9971	6.0000
2000	4.6522	1.6295	1.8440	2.0998	1.9974	6.0000
2001	4.6478	1.6109	1.8311	2.0752	1.9789	6.0000
2002	4.6438	1.5952	1.8195	3.4526	1.9753	6.0000
2003	4.6523	1.609	1.8043	3.4224	3.4643	6.0000
2004	4.6497	1.5983	1.8024	3.3991	3.4643	5.0000 (1)
2005	4.6476	1.5889	1.7967	3.3789	3.4643	6.0000

- (1) The State of Michigan passed legislation on April 30, 2002 to require the levying of the State Education Tax (SET) on subsequent summer tax bills only. A one-time reduction from 6 mills to 5 mills was offered during the 2003 tax year to assist taxpayers with the transition to the new collection cycle.

City of Novi, Michigan

Principal Taxpayers 2005 State Equalized Valuation

Company Name	Product/Service	Total Assessed Valuation	Percent of Total City Valuation
Singh	Apartment complex	\$ 70,867,350	1.98
Haggerty Corridor Partners	Property management	59,517,440	1.66
Taubman (Twelve Oaks Mall Ltd. Part.)	Regional mall	53,594,610	1.50
Fountain Walk	Retail shopping center	37,473,000	1.05
Occidental Development Ltd.	Property management	33,362,760	0.93
Toll MI Ltd.Part.	Property management	28,462,210	0.79
Novi Campus LLC	Property management	27,425,950	0.77
Providence Hospital	Medical center	25,554,920	0.71
Solomon Properties	Property management	22,205,150	0.62
TBON LLC	Exposition center	19,710,150	0.55
DTE Energy	Public utility	19,224,200	0.54
MI Developments America	Office center	19,123,260	0.53
Novi Town Center Investors	Retail shopping center	17,432,150	0.49
Triangle Mainstreet LLC	Retail shopping district	17,287,500	0.48
Ramco-Gershenson	Retail shopping center	16,751,300	0.47
JFK Investment	Property management	16,370,520	0.46
Northwestern Mutual	Office center	14,046,100	0.39
Haggerty Hotel Association	Hotel	12,095,290	0.34
International Transmission	Public utility	11,400,490	0.32
Pavilion Court Apartments	Apartment complex	10,266,850	0.29
Total		\$ 532,171,200	14.87

City of Novi, Michigan

Ratio of General Obligation Bonded Debt to Assessed Value and General Obligation Bonded Debt per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Estimated Population	General Obligation Debt Outstanding (1)	Ratio of General Obligation Debt to Assessed Value	General Obligation Debt per Capita
1996	\$ 1,478,398,350	40,500	\$ 36,225,000	2.45	894.44
1997	1,584,646,400	40,500	45,495,000	2.87	1,123.33
1998	1,712,728,050	40,500	51,105,000	2.98	1,261.85
1999	1,922,625,050	40,500	52,140,000	2.71	1,287.41
2000	2,274,361,800	47,386	49,500,000	2.18	1,044.61
2001	2,440,876,450	47,386	56,335,000	2.31	1,188.85
2002	2,677,663,040	47,386	51,325,000	1.92	1,083.13
2003	2,971,901,040	47,386	55,595,000	1.87	1,173.24
2004	3,196,088,910	47,386	52,625,000	1.65	1,110.56
2005	3,407,206,840	47,386	48,385,000	1.42	1,021.08

(1) Amount does not include special assessment bonds, revenue bonds, contractual obligations, building authority bonds, and general obligation bonds that are being repaid by Enterprise Funds.

City of Novi, Michigan

Building Permits at Estimated Market Value Last Ten Years

Year Ended December 31	Residential		Commercial		Industrial		Total
	Number	Estimated Value	Number	Estimated Value	Number	Estimated Value	
1995	1,230	\$ 78,902,610	160	\$ 24,901,588	-	\$ -	\$ 103,804,198
1996	1,423	83,165,492	197	39,910,222	3	1,970,600	125,046,314
1997	1,068	61,534,342	174	37,679,916	4	3,457,457	102,671,715
1998	365	50,148,700	147	57,587,500	-	-	107,736,200
1999	814	42,495,479	174	42,404,351	8	7,855,432	92,755,262
2000	988	91,702,934	70	46,020,904	7	5,733,164	143,457,002
2001	850	69,140,482	70	60,227,021	11	23,777,020	153,144,523
2002	846	127,159,738	81	59,036,797	8	6,577,337	192,773,872
2003	584	105,165,805	192	36,554,379	9	7,144,975	148,865,159
2004	1,242	124,514,095	52	25,476,472	8	4,463,975	154,454,542

City of Novi, Michigan

Computation of Direct and Overlapping Debt June 30, 2005

Jurisdiction	General Bonded Debt Outstanding	Percent Applicable to Novi Taxpayers	Amount Applicable to Novi Taxpayers
City of Novi			
Direct debt:			
General Obligation Bonds (Limited and Unlimited Tax)	\$ 48,385,000		\$ 48,385,000
Building Authority Bonds	23,250,000		23,250,000
Special Assessment (General Obligation) Bonds	17,595,000		17,595,000
Michigan Transportation Fund Bonds	1,745,000		1,745,000
Revenue Bonds	13,155,000		13,155,000
Installment Purchase Contracts and Agreements	34,000		34,000
Share of County Issued Bonds:			
Sewer	1,740,000		1,740,000
Drain	750,000		750,000
Total direct debt	106,654,000		106,654,000
Less:			
Special Assessment Bonds	17,595,000		17,595,000
Michigan Transportation Fund Bonds	1,745,000		1,745,000
Revenue Bonds	13,155,000		13,155,000
Total net direct debt	74,159,000	100.00	74,159,000
Overlapping:			
Novi School District	131,397,000	99.90	131,265,603
Northville School District	109,910,000	18.79	20,652,089
Walled Lake School District	212,510,000	10.49	22,292,299
South Lyon School District	219,810,000	0.80	1,758,480
Oakland County	97,029,063	5.18	5,026,105
Oakland Intermediate School District	10,220,000	4.44	453,768
Oakland Community College	11,175,000	4.24	473,820
Total direct and overlapping debt	<u>\$ 866,210,063</u>		<u>\$ 256,081,164</u>

City of Novi, Michigan

Demand and Savings Deposits Last Ten Fiscal Years

Fiscal Year Ended June 30 (2)	Deposits in Thousands (1)		
	Banks	Savings and Loans	Total
1995	\$ 428,421	\$ 66,006	\$ 494,427
1996	471,959	70,383	542,342
1997	558,550	80,833	639,383
1998	637,577	75,240	712,817
1999	509,118	85,594	594,712
2000	481,233	89,136	570,369
2001	462,917	101,145	564,062
2002	511,467	-	511,467
2003	519,096	6,075	525,171
2004	641,345	14,934	656,279

(1) Deposit information is from FDIC data contained in branch directory summaries of deposits.

(2) Information for 2005 was not available at time of printing.

City of Novi, Michigan

Demographic Statistics Last Ten Years

Year Ended December 31	Estimated Population	Number of Households	Median Household Income	Unemployment Rate
1994	33,000	\$ 15,735	*	3.3
1995	40,500	16,402	\$ 52,289	2.7
1996	40,500	*	*	2.4
1997	40,500	*	61,401	2.0
1998	40,500	*	*	1.9
1999	40,500	18,843	*	1.8
2000	47,386	19,426	72,355	1.6
2001	47,386	*	*	2.9
2002	47,386	20,573	*	3.5
2003	47,386	21,018	*	4.2
2004	47,386	21,742	*	3.9

* Not available

Sources: Southeast Michigan Council of Governments
U.S. Bureau of Labor Statistics

City of Novi, Michigan

Miscellaneous Statistical Data June 30, 2005

Streets and Sidewalks		Parks and Recreation	
Miles of City streets:		Acres	894
Primary	39	Locations	7
Secondary	116	Youth classes/clinics	240
Estimated sidewalks in miles	69	Adult classes/clinics	100
Bridges	4	Youth leagues	2,891
Street lights	401	Adult leagues	2,138
		Summer day camp	425
Fire Protection		Lakeshore Park vehicle entry	3,456
Stations	4	Lakeshore Park attendance	10,368
Fire incidents	305	Lakeshore Park picnic shelter rental	8,000
Service incidents	1,124	Lakeshore Park tent rentals	2,000
Fire inspections conducted	2,280	Rotary Park shelter rentals	1,050
Medical emergencies	2,430	Community Sports Park shelter rentals	1,750
Paid-on-call staff	48	Wildlife Woods shelter rentals	300
		Senior citizens served	63,676
Water and Sewer Services		Special event attendance	9,250
Customers:		Civic Center Rentals	1,799
Residential	11,107	Civic Center Attendance	57,352
Commercial	1,024	Novi Theaters - Cast	367
Miles of water mains	280	Novi Theaters - Audience	6,341
Miles of sanitary sewers	230		
Fire hydrants	3,139	Police Protection	
Water (in thousand gallons):		Part A crimes (1)	2,426
Purchased from Detroit	2,267,616	Part B crimes (2)	1,216
Sold to residents	2,117,038	Injury accidents	277
Rates:		Property damage	2,004
Minimum 7,000 gallons	\$ 29.00	Moving traffic violations	10,451
Additional usage at \$2.78 per		Parking violations	448
1,000 gallons		Adult arrests	1,630
Sewer (per thousand gallons of		Juvenile arrests	208
water usage)	\$ 2.05	OUIL arrests	460
		False alarms	2,470
Election Data (11/02/04 General)		Library	
Registered voters	32,131	Items circulated	464,991
Voters at polls	25,432	Book collections	119,273
Absentee ballots	5,783	Audio/Video/CD collections	11,552
Percent voting	79.15%	Periodical subscriptions	189
		Requests of Information	115,623
		Youth Summer Reading	1,687
		Program participants	26,940

(1) Murder, negligent homicide, criminal sexual conduct, robbery, assault, burglary, larceny, arson, motor vehicle theft, embezzlement, drug laws, gambling

(2) Fraud, OUIL liquor laws, disorderly conduct, family trouble, etc.

City of Novi, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Novi, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Novi, Michigan

We have audited the basic financial statements of the City of Novi, Michigan for the year ended June 30, 2005 and have issued our report thereon dated September 30, 2005. Those basic financial statements are the responsibility of the management of the City of Novi, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Novi, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 30, 2005

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Novi, Michigan

We have audited the financial statements of the City of Novi, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Novi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Novi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and
Members of the City Council
City of Novi, Michigan

This report is intended solely for the information and use of city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 30, 2005

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and
Members of the City Council
City of Novi, Michigan

Compliance

We have audited the compliance of the City of Novi, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal programs of the City of Novi, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Novi's management. Our responsibility is to express an opinion on the City of Novi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Novi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Novi's compliance with those requirements.

In our opinion, the City of Novi, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

To the Honorable Mayor and
Members of the City Council
City of Novi, Michigan

Internal Control Over Compliance

The management of the City of Novi, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Novi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 30, 2005

City of Novi, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Oakland County, Michigan - Community Development Block Grant	14.218	Unit 23	\$ 202,892	\$ 129,204
U.S. Department of Justice - Direct:				
LLEBG - Bike and Motorcycle Grant #02-LB-BX-1897	16.592		16,650	4,642
LLEBG - Bike and Motorcycle Grant #04-LB-BX-0004	16.592		6,280	<u>1,218</u>
Total LLEBG				5,860
U.S. Department of Justice - Office of Justice Program:				
Police Vest Grant	16.607		2,019	2,019
Organized Crime Drug Enforcement Task Force	16.unknown		20,000	<u>9,980</u>
Total U.S. Department of Justice				17,859
U.S. Department of Transportation - Passed through the State of Michigan - Highway Safety Grant	20.600	36.958	24,000	21,470
U.S. Department of Agriculture - Forest Services - State and Private Forestry Program - Passed through the State of Michigan:				
Michigan Arbor Day Alliance	10.664		200	200
Emerald Ash Borer Tree Planting Grant	10.664		20,000	<u>20,000</u>
Total U.S. Department of Agriculture				20,200
Office of Water, Environmental Protection Agency - Passed through Wayne County - Rouge River National Wet Weather Demonstration Project:				
Dunbarton Regional Detention Basin Project	66.606		361,970	269,788
Haggerty Detention Basin Project	66.606		250,000	<u>107,945</u>
Total Office of Water, Environmental Protection Agency				377,733
U.S. Federal Emergency Management Agency - Passed through the State of Michigan - 2003 SHSGP Part II Training Grant	97.004		57,405	<u>38,940</u>
Total federal awards				<u><u>\$ 605,406</u></u>

City of Novi, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Novi, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Program Title/Project Number/Subrecipient Name	CFDA Number	Amount	
		Provided to Subrecipients	
Community Development Block Grant	14.218	\$	31,786

City of Novi, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
	Office of Water, Environmental Protection Agency - Passed through Wayne County - Rouge River National Wet Weather Demonstration Project:
66.606	Dunbarton Regional Detention Basin Project
66.606	Haggerty Detention Basin Project

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Novi, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



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September 30, 2005

Honorable Mayor and Members
of the City Council
City of Novi
45175 West Ten Mile Road
Novi, MI 48050

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Novi for the year ended June 30, 2005. As a result of our audit, and in addition to our financial report, we offer the following comments for the Council's review:

STATE SHARED REVENUE

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored. The budget has now been adopted, with state shared revenue payments funded at fiscal year 2004/2005 levels.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, projected sales tax revenue would have supported an increase to state shared revenue payments; the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

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STATE SHARED REVENUE (CONTINUED)

State shared revenue accounts for approximately 16.6% of the City's total General Fund revenue. If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$572,000 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. As a point of reference, total receipts from this revenue source during the City's fiscal year ended June 30, 2005 were approximately \$2,960,000.

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation that we received from Kathy Smith-Roy, Marina Neumaier, Jeff Hall, the accounting staff, and the rest of the City personnel during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan



Scott M. Janssen